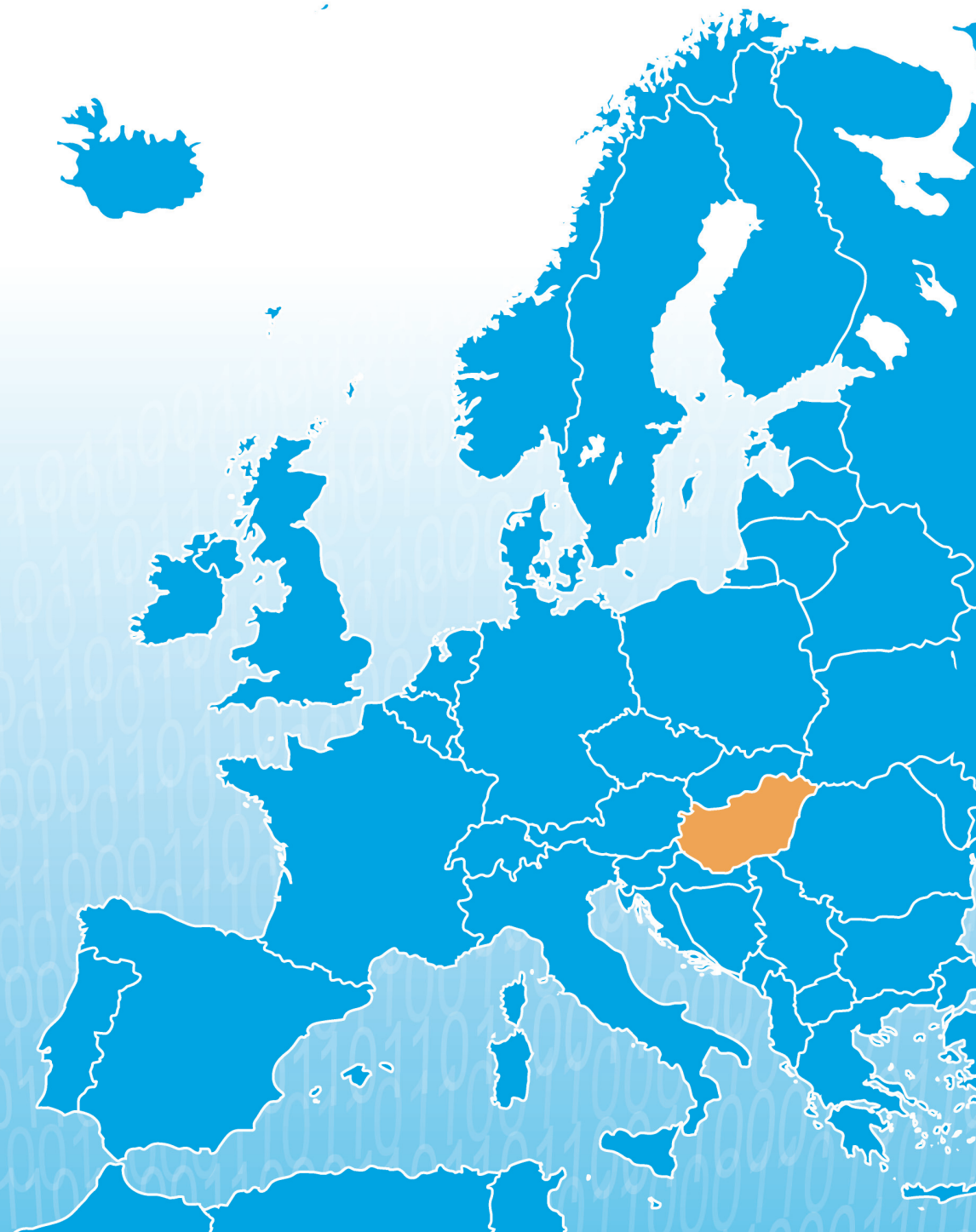


## Hungary's Strategic Audit 2007

**DEMOS**  
HUNGARY

 **ITD**  
HUNGARY





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# Strategic Audit 2007

## Introduction

One key characteristic of modern man is that the present is at the centre of our time horizon. We live in the now because this is what we need to do to be able to complete our everyday work, to find our place in an increasingly complex world and have our extensive network of personal contacts running. This is why it was one of our priorities to have our Strategic Audit 2005 publication prepared based on similar documents published in Great Britain, Germany and New Zealand. Strategic Audit 2007 is designed to give an overview of the defining, strategic processes of the past two decades, the resulting new conditions and the main challenges we have to face today.

### Dual transition

We used the concept of dual transition as a basis to get an overview of the past 17 years. When comparing the developments in the former communist countries to the transitions in Southern Europe, researchers often stress that unlike in eastern European countries, the changes in the political system in Spain and Portugal had to be carried out while preserving the continuity of the institutional system of the market economy. The thesis of dual transition, however, is about more than the already shocking fact

that in the former communist countries a change in the regime had to take place not only politically but also economically. According to the concept of dual transition, post-communist political and economic transition occurred at the same time these countries had to face the challenges of post-industrialism, a somewhat related phenomenon yet to be treated separately on the level of analysis. This challenge is primarily globalisation-cultural and technological by nature. We are not saying that post-communist states like Hungary could have given optimum answers to these challenges. Actually, the differences conserving backwardness were regenerated in these dimensions. No post-communist country can avoid these challenges due to their paradigmatic nature. In other words: post-communist countries could not follow the welfare model of the 1970s because by the time these states would have been able to apply these models, the models themselves had undergone a substantial transformation. Describing this transformation, identifying its consequences and outlining a new model is the number one intellectual and socio-political task of the day.

Strategic Audit is a step in that direction.

### The dual transition of the past 17 years

Although the first 17 years of post-communism were built up of exceptionally complex processes, it is not without any use to state in today's chaotic world of irrational ideas that this dual transition drove the country towards late modernism. We can use a number of indicators to verify the above statement but for now let us take two basic indicators recommended by Peter L. Berger that both originate from the sanctity of life. Mr. Berger argues that social well-being and the evaluation of the current situation depend on a number of factors. However, there are certain objective indicators whose moral content is beyond any doubt in Judeo-Christian culture. These indicators are called the index numbers of human suffering and basically include **infant mortality and life expectancy** [52].

It is not doubted that positive evaluation is not applied when judging dual transition by public opinion. General and even excessive pessimism is the key factor. The **latest research data of Eurobarometer** (42) reveals that Hungarians are among those who consider their situation within the European Union with the utmost pessimism. If satisfaction with life in general is surveyed on the inter-



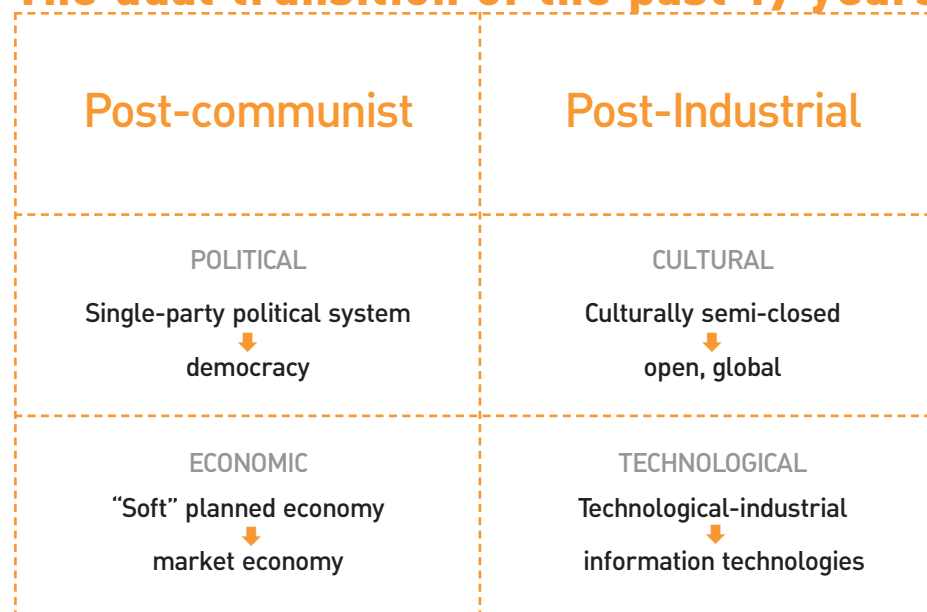
national level, we find the “**paradox of happiness**” (14). While the citizens of the richest countries are the most satisfied with their lives, it is not the suffering people of Black Africa who are the least happy but actually those living in the post-communist countries.

### Hungarians are unreasonably pessimistic

According to comparative value research, **material and surviving values are dominant in today’s Hungary** (13). It would be obvious to think that our bad mood is due to our underperforming with regards to these values we hold so dear. However, consumer indices are continuously on the rise and in recent years people have been willing to take on serious **loans to keep up consumption levels** (41).

The international outlook does not provide an explanation for this pessimism either. **Feedback from the European Union** (59) and expectations regarding Hungary’s membership continue to be positive. The anxiety of Hungarian society as a whole is increased by new situations without templates for solution, and situations where unknown challenges are to be met. Although **Hungary today is more exposed to the processes of globalisation** (10) than during the semi-permeable world of state socialism “pro-

## The dual transition of the past 17 years



ected” by borders, the country plays such an insignificant part in, for instance, **global migration processes** (56) that it cannot be considered a real danger. A model example for this situation is the excessively **negative opinion against employment opportunities for foreigners in Hungary** (47). But this is only one example to illustrate that over the past two decades Hungarian society has become more sour and introverted than those in the neighbouring countries.


Although several explanations can be given for this situation, we still cannot identify the exact causes of the discomfort in the once “happiest barracks”. Nevertheless, this cultural phenomenon deserves due attention. It is fair

to say that the general attitude of the Hungarian population is not in harmony with the actual economic situation. This is quite an important aspect as passive and pessimistic attitudes work as self-fulfilling prophecies at times of major transformations. Ady, the famous Hungarian poet, hit the nail on the head in terms of economic sociology when he wrote about a century ago: “Great things have been created only if those who did them were bold and brave, and could be brave and storm-beaten a hundred times”. Yet, because of the forceful nature of traditions and value structures, we can clearly state that the key to the

situation is to be found in the economy and the perception of economic processes.

### Changing macroeconomic situation

Hungary’s macroeconomic indicators are mostly **favourable** (16). Following the difficult period of transition after the change of the political regime, **privatisation** (18) and **foreign direct investment** (20) got the economy rolling to help the **market economy** develop fully (19) and create a **structurally significantly different national economy** (21). As a result of these processes and the economic readjustment of 1995, the Hungarian economy underwent a boom and became **export-oriented and open** (23). During the years preceding our ascension to the European Union, an



increasing share of our commerce was conducted with Western European countries resulting in **the Hungarian economy being mainly dependent on the West and Germany especially** (24). In the process, we have lost some of our markets, the most notable being that of the Soviet Union, and developed a **significant trade deficit with China** (118).

On the downside, the proportions of the **shadow economy** (25) and **public servants** (26) have remained relatively high despite the reduced role of the government. Alone of the countries planning to adopt the euro, **Hungary has not fulfilled any of the Maastricht criteria necessary for the adoption of the European currency** (27-30). We must note that a number of founding members of the EU have had trouble with the state deficit and/or the level of state debt. Nevertheless, the Hungarian convergence programme approved by the European Union forecasts that our national indicators will be close to or even reach those specified in the criteria. Another problem is that **the levels of employment** (78) and **economic activity** (79) in Hungary are among the lowest in the EU. In addition, **unemployment** (82) has risen over the past five years, although is not even close to the average level of the Union.

Despite the **continuous economic growth** in purchasing power parities (17), this has not been so clear in everyday life. A **large percentage of our income is still spent of food items** (34) and even though **more consumer goods**

**are purchased** (36), a **large percentage of these are financed by loans** (41). Household indebtedness, however, is not primarily due to consumer credits but rather state funded housing loans introduced in 1999.

#### Challenges of the information age


The key question of our day is how locally organised communities like nation states can react to the challenges of the information age. Three areas need detailed examination: the information revolution, globalisation of cultural values and the challenge of demographic restructuring.

**Information revolution** – A paradigm shift began at the end of the 20<sup>th</sup> century that became more focused in the new millennium. This information revolution induces social changes at a speed and depth so far unseen and these changes impact every single aspect of our lives. Rising with the tide of **the information revolution could be a breakout opportunity** (63) for our region we have missed so far and a fast track to catching up with the developed West. One prerequisite of this catching up is the recognition and strategic decision to help the changes in Hungary react to the **challenges of the information age** (62) instead of following an outdated paradigm. Economic and political decision makers and scientists have attempted to identify breakout opportunities for Hungary. In view of international recipes for success and actual success stories, it is not by chance that priority was given to strengthening SMEs, **increasing investments in R&D** (69) and **innovation** (67),

and emphasizing the importance of the IT sector generating a big boost for the economy.

Unfortunately, the indicators designed to measure the extent of this information revolution and the level of development of information society seem to confirm that Hungary as an EU member, or even the EU as a whole in comparison to the rest of the world, cannot fully take advantage of the opportunities offered by the new technologies. What really holds back the full development of this information revolution in Hungary is the **cognitive blocking mechanism** (11). The main reason for that is while financial barriers can be lifted at a faster pace, those related to cognitive skills, knowledge, attitude and content management can only be solved in the longer run with more significant investments. The key to a successful future here again is **the new generation socialized in a world capable of meeting these new paradigms** (11).

**Demography** – Hungarian demographic tendencies are **beyond doubt highly unfavourable** (50) but do not differ significantly from the mainstream changes of European demography. No improvement of the age structure is expected even in the long run; **the population of Hungary is ageing like other parts of Europe** (51). This issue must be tackled somehow and **the old-age pension reform launched in the late 1990s must be continued** (107). However, additional reforms are necessary in the case of other social service systems. Although the number of births has been on the rise since 2003, nevertheless **few**



**babies are born (54). The mortality rate is very high in the international context and even life expectancy is lower (105) than the EU average.** It is very likely that only complex employment programmes integrating healthcare and information technology innovations can successfully combat the increasing ratio of dependents.

**Cultural globalisation** – By joining the European Union, Hungary took the biggest and most significant step in connecting to the global institutional system. This was a direct consequence of the process that started with the change of the political system and the free flow of capital and cultural assets. Hungarians have the same opinion on these changes as citizens of the “old EU” countries: they are worried that globalisation will lead to cultural uniformity. The world has clearly opened up for us. **We consume more foreign cultural products than ever before (57-58), yet our strong national identity (60) does not seem to be endangered by any factor.** Contacts between cultures will, however, increase and change in their nature to further formulate this picture.

### **Social cohesion**

Social cohesion is one of the basic questions of late modernity: how is it possible to maintain meaningful communities in the middle of effects that generate and support individualism so that disintegration does not dominate and the social centrifugal forces do not tear apart the mesh of coexistence and the sense of community.

One of the defining paradoxes of our day lies between our transforming and globalising world and the traditional institutions which are slow to move and react to such changes. Below we are going to examine the three, traditionally most important pillars of cohesion: the caring family, employment, and the issue of public trust and social responsibility.

The traditional family, as the most significant identifying element of European culture, has undergone a major change unrelated to state control and has done so right in front of our own eyes. More and more couples choose common-law marriage while **there is an increase in the proportion of divorces (71).** Contrary to general belief, **the number of births is not decreasing due to the marriage factor (74):** in several European countries more people are willing to have children even though common-law marriages are much more frequent than in Hungary.

In terms of employment, we still have not recuperated from the trauma caused by the change of the political regime. **Unemployment is somewhat lower than the average of the EU25 (82),** unemployment among career beginners is gradually increasing and in 2005 even exceeded the average of the European Union. The main problems include **the low proportion of the employed (78),** and the high number of those exiting economic life and primarily choosing early retirement. What is especially

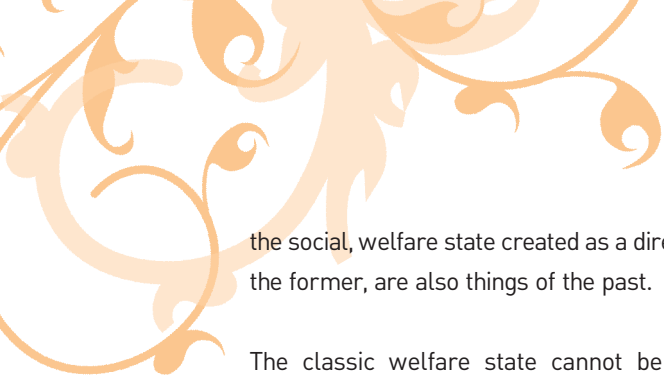
worrying is that a strikingly high percentage of them exit the job market with a disability pension. In an effort to maintain Hungary's economic competitiveness, **we must increase the level of employment (80)** by increasing the proportion of, among other things, **part-time (75-76) and telework (77).**

Weakening of social cohesion is indicated by a **significant loss of public trust in political institutions (85)** that include even such institutions not directly connected to party politics like the Supreme Court or even the president of the state. It is a fact, however, that the less a particular institution is connected to political parties the more popular it is. This low level of trust towards social institutions is clearly visible in **low voter turnouts (87-88)** and the weakening position of traditional social institutions like **trade unions (91) and churches (92).**

We have quite a mixed experience in terms of social problems. It is good news that **the number of suicides is now decreasing (95).** Nevertheless, **alcoholism (96)** continues to be endemic and **crime (93)** is still at a high level. The institutions of **the justice system have not become more efficient (94),** either.

### **State service providing systems**

The key message of the post-industrial side of the dual transition model is that the time of the omnipotent state is now gone. As a result, paternalistic socialism as well as



the social, welfare state created as a direct continuation of the former, are also things of the past.

The classic welfare state cannot be sustained for a number of reasons. Some of them, e.g. globalisation and demographic changes, have already been discussed. However, other factors like the advancements in healthcare technologies throwing a significant burden on healthcare services are just as important yet less frequently addressed issues. Even though these services cannot be maintained, it does not mean that state duties would cease to exist. Quite on the contrary: it actually means new tasks to complete, a change for a new social consensus, the full utilisation of which presents a serious intellectual and political challenge. In this new situation a new concept of the state has to be developed, a state that creates opportunities for people, a state that can involve a broad range of social groups and a state that offers partnership to the people.

We are seriously behind in this regard. A symbolic indicator of this new level of relationship between the state and the citizens is the scope and quality of state services included in **e-government** (65-66). The figures suggest that Hungary still has a lot of homework to do.

The primary mission of the state in this new situation is to help citizens use their capacities to the maximum. One key tool for that is education where a crucial issue is to allow

**the competition-based education structure** (109, 112) to create an opportunity for all to acquire the knowledge necessary for their advancement and self-expression in light of their skills and ambitions. In international comparison **funding for education in Hungary is insufficient** (112) but a **structural transformation and stabilization of professional education has begun** (110).

What makes the development of a service-providing state more complex is that the current service-providing systems clearly in crisis need to be reformed and rethought in parallel. Social justice requires the state to care for those who cannot participate or benefit from the world opening up as a result of new opportunities and individual skills. Healthcare is typically an area where services have to be made generally available with all the associated burdens of the past such as **poor public health** (105-106) and **self-destructive lifestyles** (103).

Education and healthcare must take an increasingly active role in ensuring the country's competitiveness, which undoubtedly need to supersede the currently dominant narrow-minded approach.

#### Sino-Hungarian relations

Strategic Audit 2007 is an updated version of the one two years ago. Sino-Hungarian relations is a new chapter in the present study. Most members of the European Union, old and new members alike, have developed a so-called

China strategy. It is basically an institutional response to the primarily economic challenges resulting from **China's rise** (115) on the global stage. Hungary has no such China strategy, not even a strategy for the Asian continent.

**The balance of foreign trade** (117) with China is in the red for most EU members. However, the Chinese consumer market is quickly developing, more **Chinese tourists visit Europe** (120) year by year, Chinese high-tech industries and the level of related education and training programmes are making stunning progress, and **China is importing and exporting more capital** (116). All these open up opportunities for long-term cooperation, and reciprocal development opportunities that would be a grave mistake not to take advantage of. The Hungarian season to be launched in eight Chinese cities in the autumn of 2007 offers a great opportunity for Hungary to rethink its relationship with China and the Far East and create the political, institutional and econo-diplomatic background necessary to initiate a significant development of a network of relations between the two countries.

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Audit is a unique genre that organises the data of various sources into a system and then analyses the information. Due to its nature, this audit does not undertake to analyse the latest economic and social changes; nor does it attempt to provide a complete overview or make any judgements based on any political value.

# Hungary is more exposed to globalisation processes now than in the semi-open, sealed off world of state socialism

The Foreign Policy globalisation index for 2006 differentiates between four dimensions of globalisation:

**Economic globalisation:** definitive indicators are the proportion of export-import goods and services in relation to the GDP, and the convergence of home and world-market prices [in this dimension Hungary occupies the 7<sup>th</sup> place]

**Technological globalisation:** data of Internet users, hosts and secure servers per capita [Hungary – 27<sup>th</sup> place]

**Social globalisation:** the proportion of people travelling into and out of the country as compared to the country's population. Minutes of international telephone calls per capita. The proportion of foreign bank transfers as compared to the GDP [Hungary – 17<sup>th</sup> place]

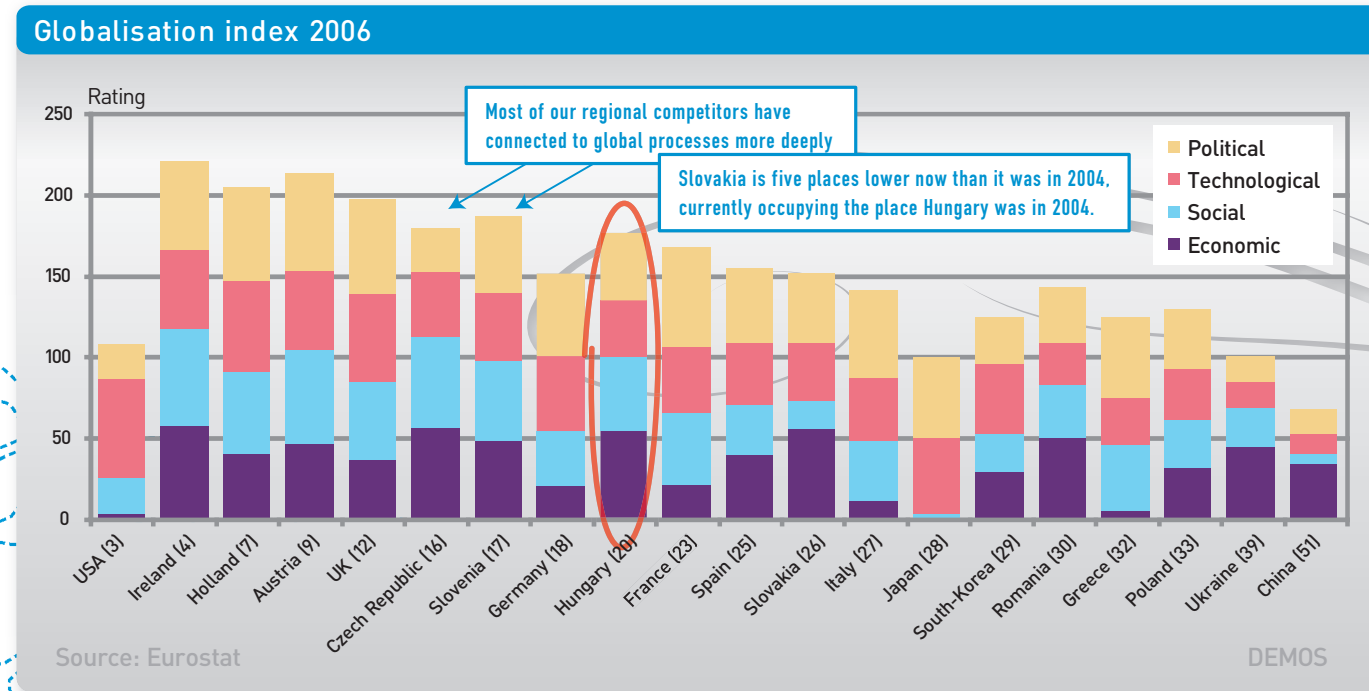
**Political globalisation:** members of international organizations, ratified international treaties, government transfers, depth of relationship with the UN [Hungary – 20<sup>th</sup> place]

- Hungary has moved up 14 places in 2 years on the Foreign Policy economic globalisation index
- According to the index, the “most globalised” countries tend to be small ones
- It is because their size demands openness as their opportunities for self-sufficiency are limited and staying in the home market would decrease efficiency. But apart from that, there are also geographical and historical reasons behind this

- The first 20 countries are: Singapore, Switzerland, the USA, Ireland, Denmark, Canada, Holland, Australia, Austria, Sweden, New Zealand, the UK, Finland, Norway, Israel, the Czech Republic, Slovenia, Germany, Malaysia, Hungary

Source: Foreign Policy – Globalisation Index, 2006. in parentheses are the ranking of the countries among the 62 (these 62 countries provide 98% of the world's GDP)

# The effect of economic globalisation is the strongest, that of technological globalisation is the weakest



- Although our economy is fairly open, Hungary is only moderately affected by globalisation

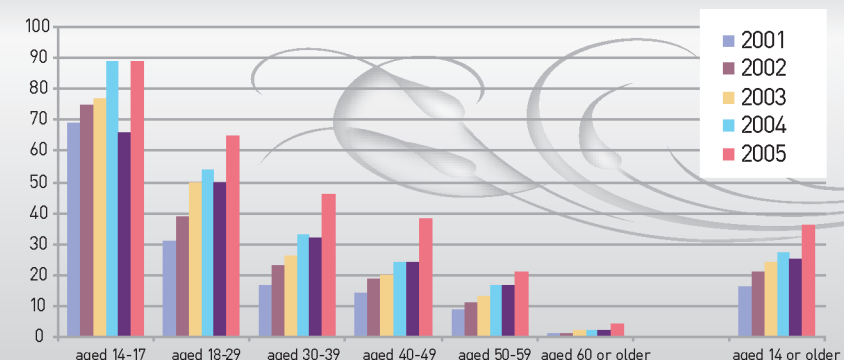
- We've drifted backwards technologically because of the slow advance of the Internet
- We display an average activity on the global political platform; this has definitely increased since our EU-admission

## In addition to material factors, the spread of internet usage is impeded by cognitive limitations

- In Hungary, besides materialistic, financial reasons, cognitive barriers are increasingly significant in the non-use of the Internet. An example of this is disinterest, and people who cannot and do not want to use it
- There is a breakthrough, however, among 14-29 year-olds

The five measurement dimensions of the digital access index and the indicators behind are as follows: Infrastructure (number of subscriptions for landline and mobile phones), Payability-Availability (internet subscription fee and charges), Knowledge (literacy and educational background), Quality (number of broadband Internet subscribers, international Internet connection bandwidth) and Use (number of Internet users).

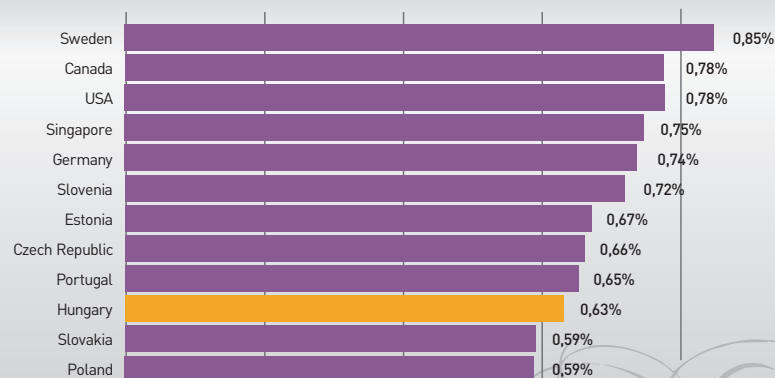
The proportion of Internet users by age groups (2001-2006)



Source: BME-ITTK, ELTE ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

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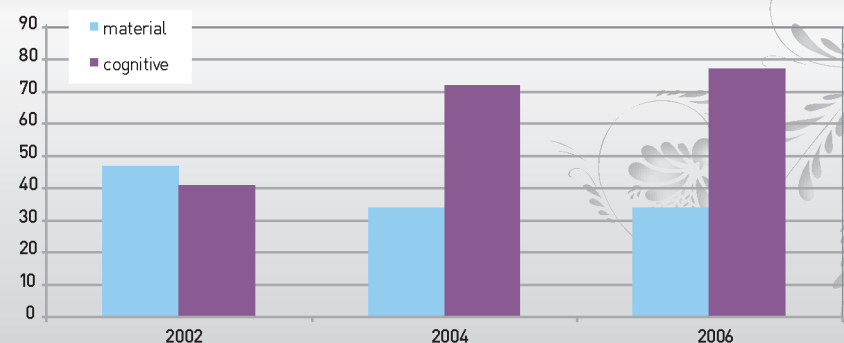
Digital Access Index



Source: ITHAKA, ITU

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Reasons for not using Internet: the proportion of those providing material and cognitive reasons among people not using Internet (2002-2004-2006) (%)



Source: BME-ITTK, ELTE ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

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## Compared to Europe, we are tough and avoid uncertainty

- The comparative culture research published in 2001 aims to set up a cross-cultural, unified system for the analysis of social values and cultures
- Its measurable results are based on a relative, and not absolute scale, therefore they can be assessed only compared to each other

### Uncertainty Avoidance (UAI)

"The measure of how much people feel threatened by insecure, ambiguous situations and how much they are trying to avoid them: if this measure is low, it may indicate impassivity and conflict-seeking

### Individualism (IDV)

"describes the relationship between the individual and the community, the correlation of convergence, responsibility, decision-making and loyalty": its low measure may denote collectivism

### Power Distance Index (PDI)

"that is the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally": its low measure denotes solidarity and liberalism

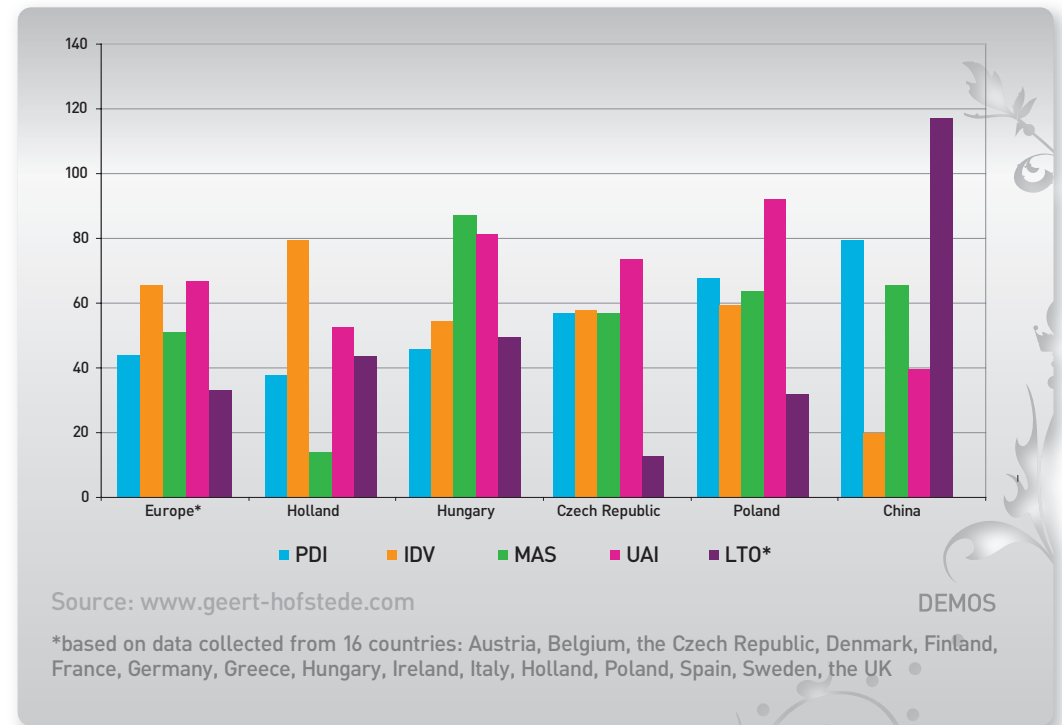
PDI (Power)  
IDV (Individualism)  
MAS (Masculinity)  
UAI (Uncertainty Avoidance)  
LTO (Long-term orientation)\*

### Long-term orientation (LTO)

opposes dynamic future-orientation with orientation to the static past and present: its low measure denotes the predominantly short-term orientation of the given country

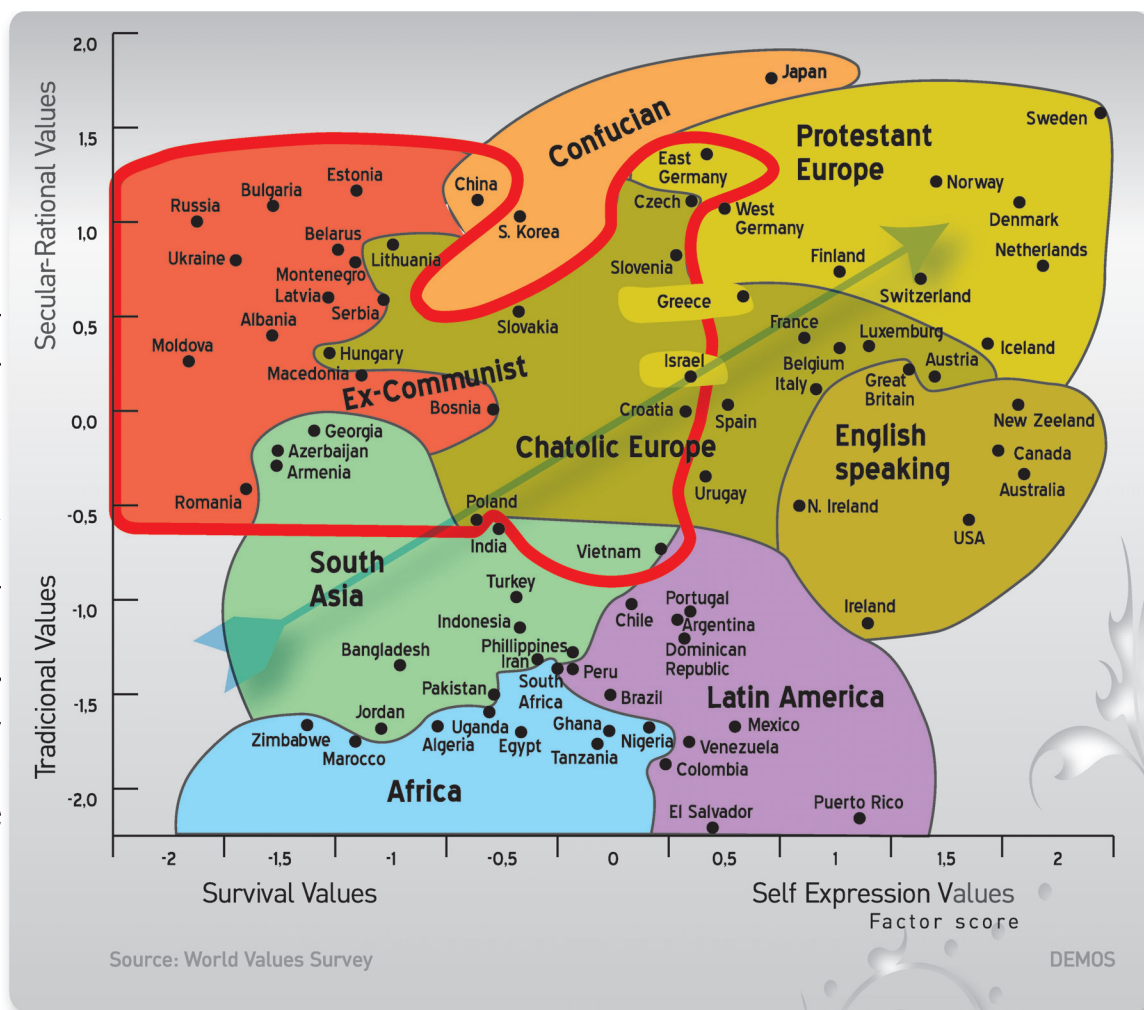
### Masculinity (MAS)

"distribution of values and roles in the society": its low measure denotes subordination, inclination for conflict-seeking and emotions



- Hungarians are more sensitive to subordination, less consensus-seeking, and more rational than emotional
- Yet - just like the Czech and the Polish - they are more conflict-avoiding than the European average, and feel more threatened in unstructured situations

## On the value map, Hungary is situated between the former communist countries and Catholic Europe



- In recent years, the world has moved towards secular-rational, and self-expressive values
- Hungarians are among the most traditional both in Central Europe and in the EU
- Self-expressive values are rather low, we are trying to survive

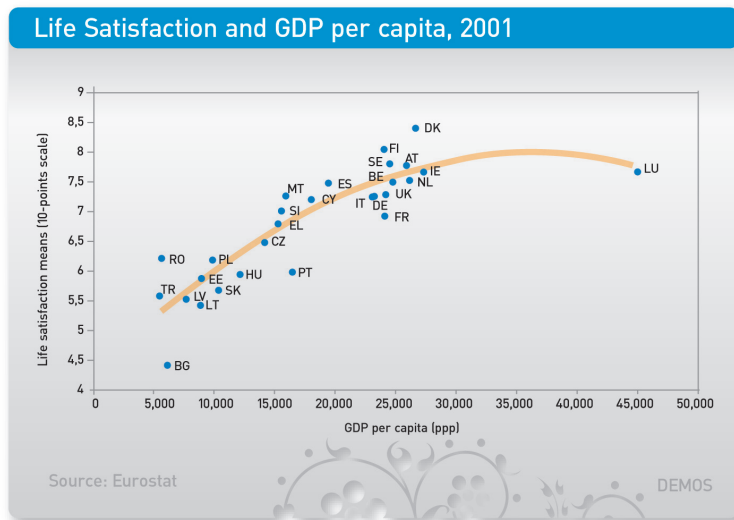
The “traditional/religious-rational/secular” axis calibrates the differences by country in religiousness, orderliness as an important element in a child’s education, national pride, mode of authority

The “subsistence-self-expression” axis measures differences in the importance of material things, reliance, tolerance, participation in political decision-making, and liberalism in gender roles

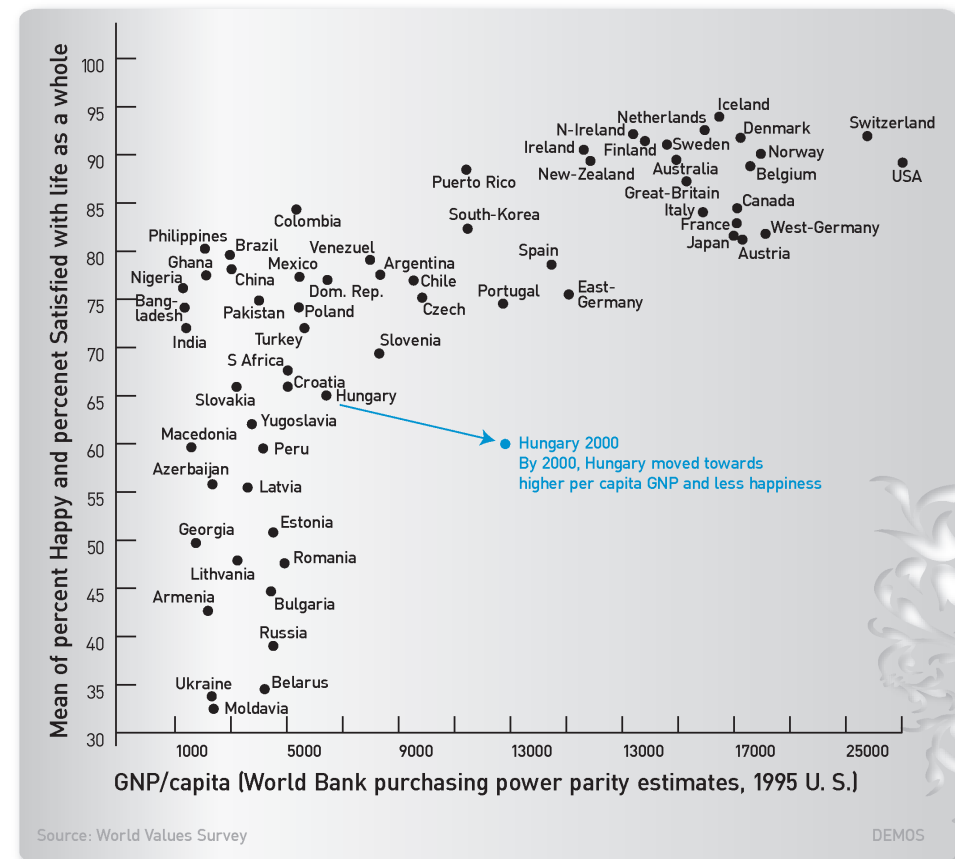
Source: Andorka (2006)

# Despite economic growth, Hungarians are still pessimistic

- In spite of better results in national product and GDP between 1995 and 2000, the population became gloomier
- This may be partly due to the huge social-economic changes and the uncertainty accompanying adaptation to the market economy



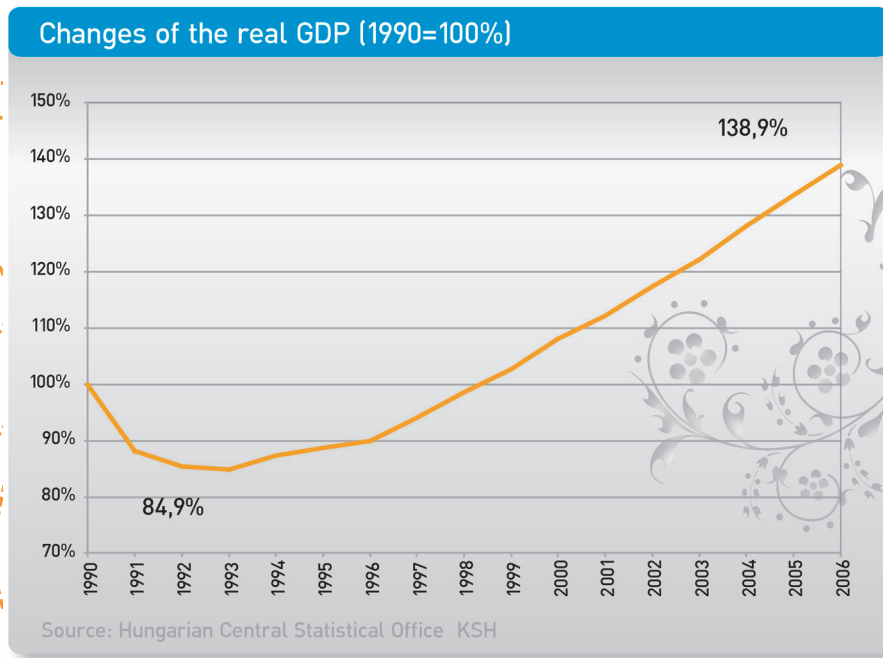
- We feel much worse than the really suffering people of Black Africa (happiness-paradox)
- 12 years ago, Hungary had the fewest happy people among the V4 countries
- The happiest are the Danish, the Finnish, the Swedish, the Austrians, the Dutch and the Irish



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## Regime transition caused severe economic difficulties, from which the country has successfully recovered

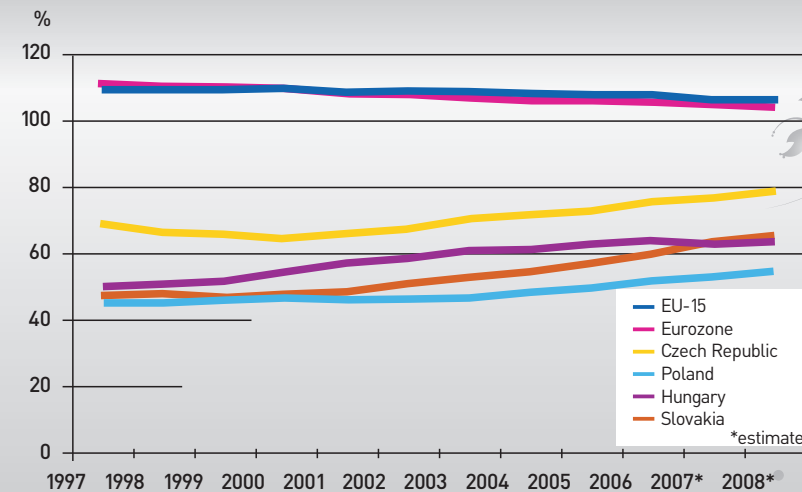


- Due to the trauma caused by the transition to a market economy, the real value of GDP dropped by over 15% in the first 3 years
- Economic growth is steady at an annual 3.8% increase since 1993

## Growth has also been steady in terms of purchasing power parity

- In terms of purchasing power parity, Hungary's GDP has been gradually improving since 1993
- In terms of purchasing power parity, Hungary was only at half the average of the EU25 (49.8%) in 1997, but by 2005 this figure had increased to 62.5%.

Per capita GDP counted as purchasing-power parity (EU-25=100%)

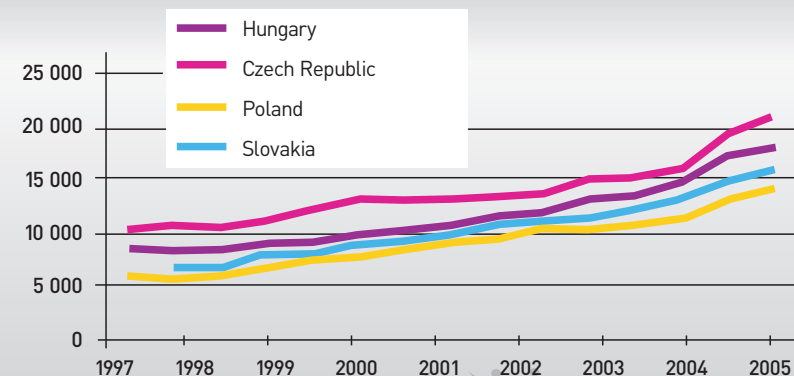


Source: OECD - WEOD, 2004

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- Hungary's disadvantage, however, has not changed in absolute terms, because similar processes have developed in the EU15
- Hungary has kept its second place in the Visegrád Four and even reduced how far it trails behind the Czech Republic.

Per capita GDP as purchasing-power parity, USD for the Visegrad Four

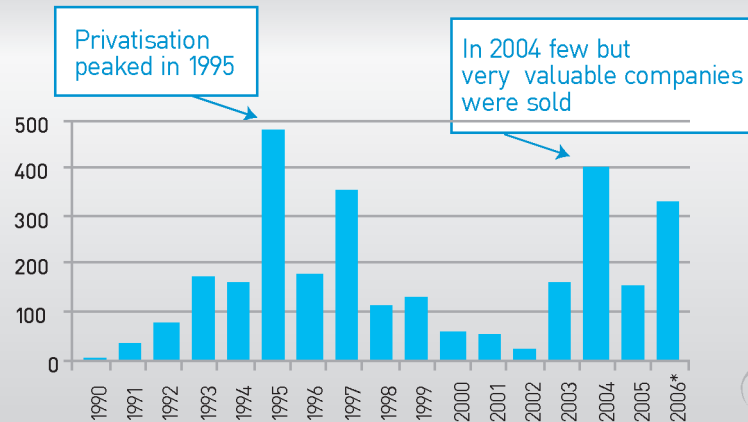


Source: Hungarian Central Statistical Office - KSH

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## In the mid-1990s privatisation was one of the driving forces behind the economic growth

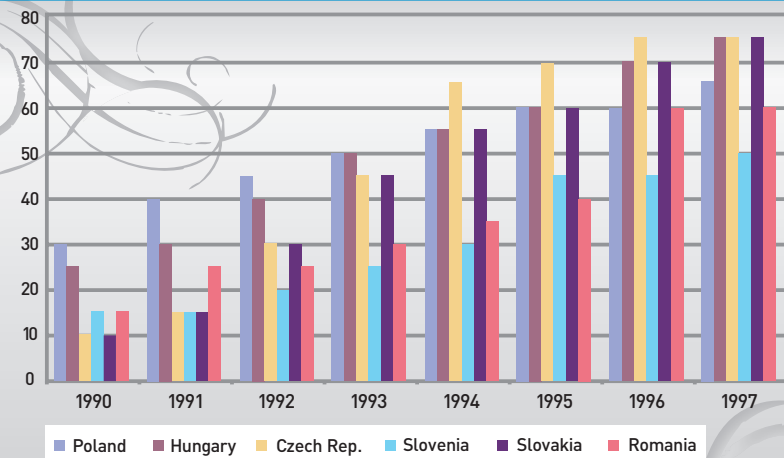
Privatisation revenues at current prices (billion HUF)



- The privatisation process that began in the early 1990s has played a key role in economic modernisation
- Privatisation peaked in 1995
- In 1990, Hungary had 1859 state-owned companies
- Only 128 of such companies have remained, 90 of which can be privatised

- As a result of the first wave of privatisation the private sector's contribution to the GDP has continuously grown in Central Eastern Europe: by 1997 it reached 60-75%
- In Hungary, the private sector increased its share of the GDP threefold between 1990-1997 and achieved a level of 75% at the end of this period

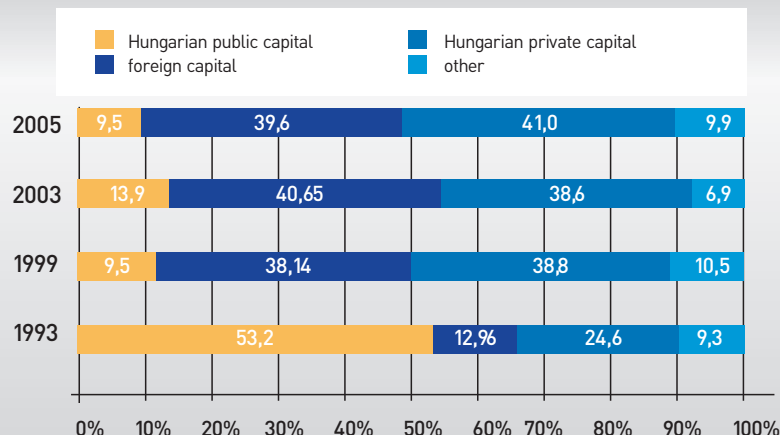
The private sector's contribution to national GDP in individual CEEs countries following the first wave of privatisation (1990-1997)





# The transition to market economy has been completed

Types of capital of business associations (2006)



Source: Institute for World Economics  
of the Hungarian Academy of Sciences

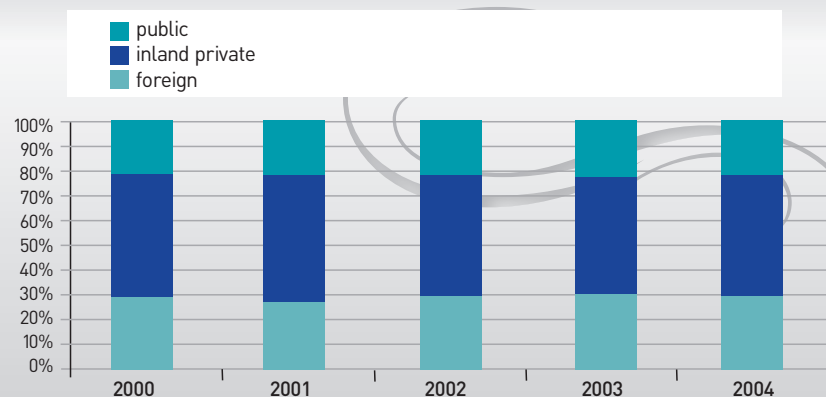
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"Other" includes assets  
of local governments,  
cooperatives and MRP  
organizations

- The proportion of state property in business associations dropped from 53% in 1993 to less than 10% in 2005
- Over that period the ratio of foreign capital grew fourfold
- The rate of Hungarian capital began to increase significantly only after the turn of the millennium
- Despite the change in the ownership structure, the distribution of added value has remained steady since 2000
- The number of registered economic organizations has been on the rise since 1997

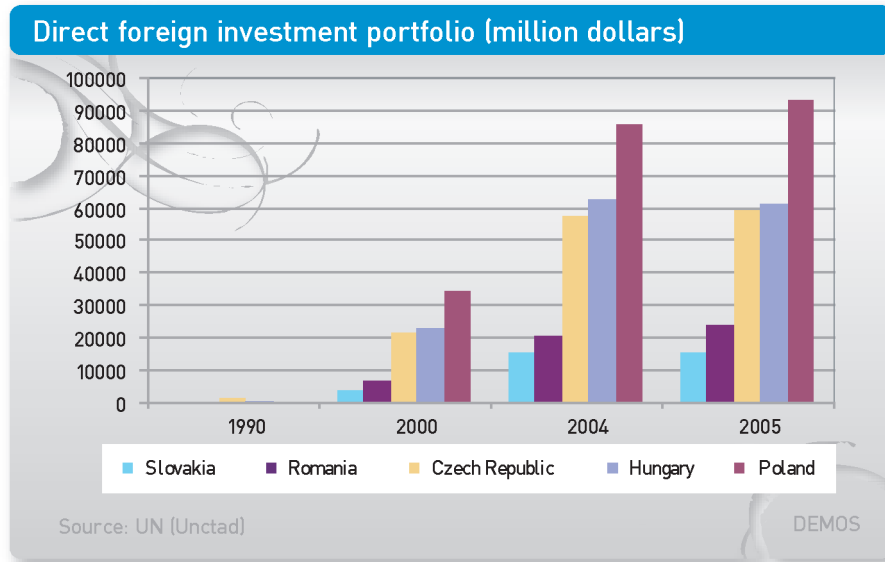
Distribution of added value per proprietary sector (at current price, %)



Source: Hungarian Central Statistical Office – KSH

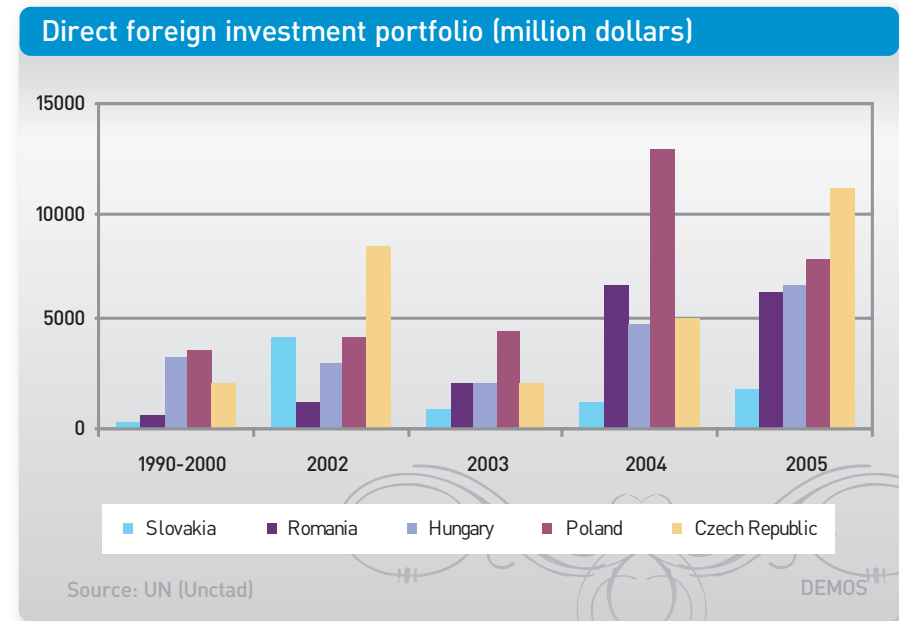
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## The economic transition was also supported by foreign direct investment (FDI)



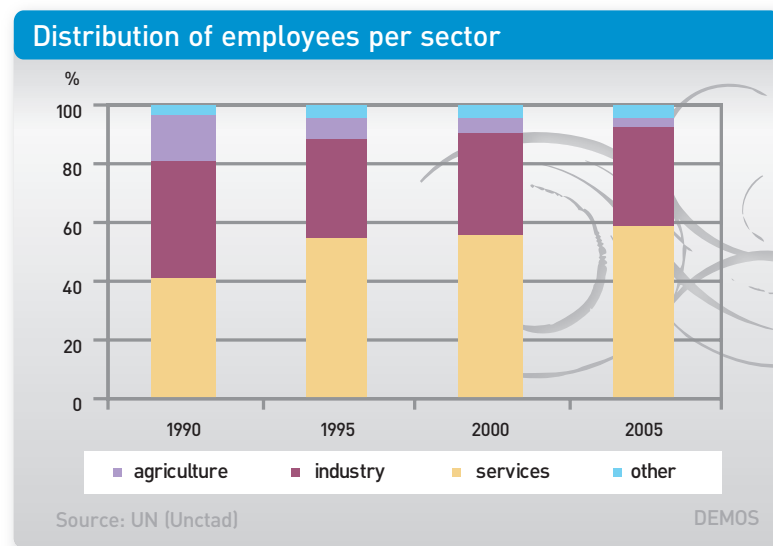
- The influx of FDI to Hungary has been steadily growing since 2003
- In 2005 Poland had the highest level of foreign direct investment in the region while Hungary was second

- Over 15 years approx. four times more capital was invested in Hungary than in Slovakia
- Of the new EU member states, Estonia has the highest per capita direct capital while Hungary is second followed by the Czech Republic, Slovenia, Slovakia and Poland



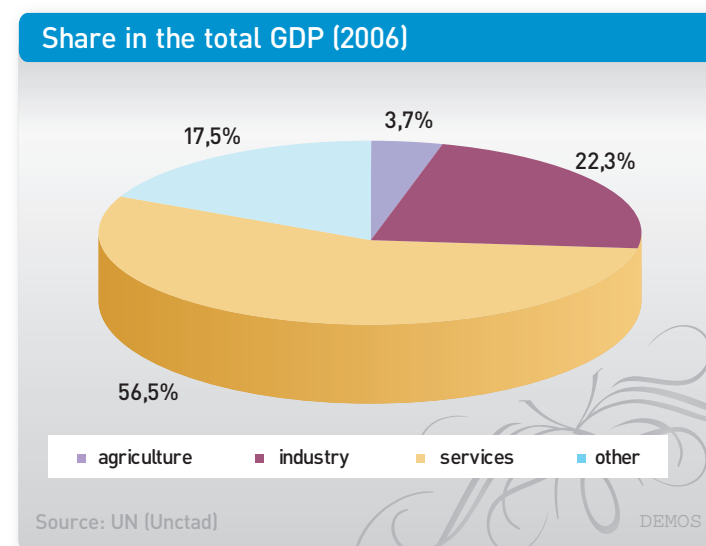
# The structure of the national economy has changed significantly

- The proportion of service sector employees has grown significantly
- One-third of Hungary's workforce is employed by the industrial sector, which is approx. 8 percent lower than in 1990, but still much higher than the European average
- The agricultural sector has employed less than 5 percent of the country's workforce since 2001

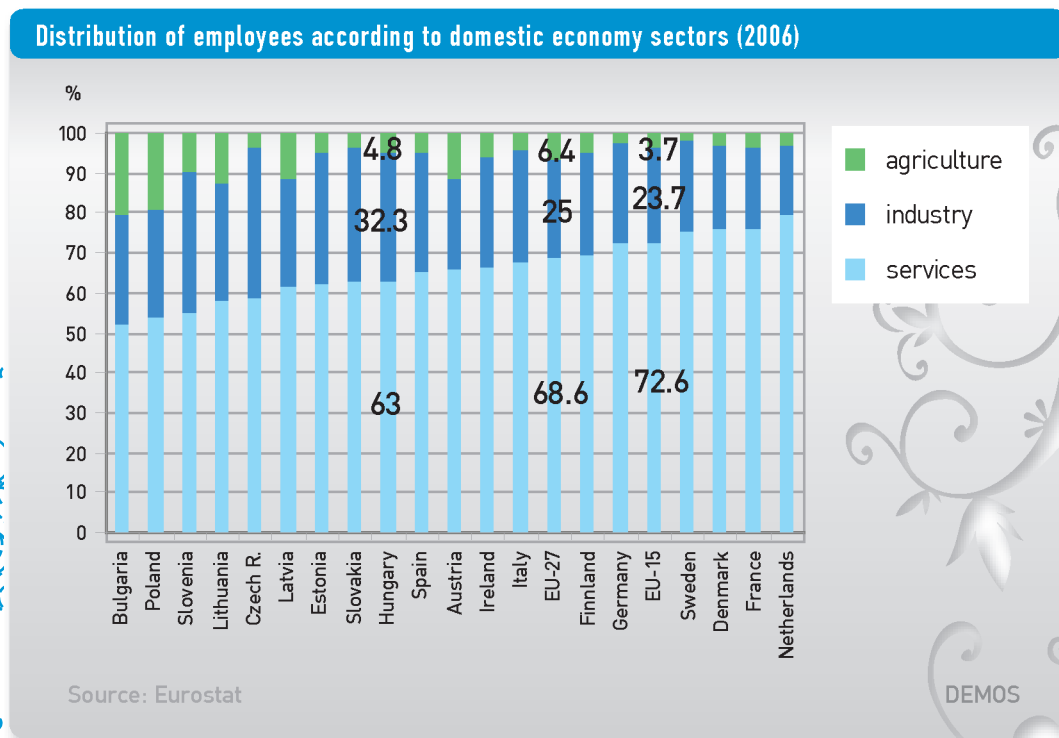


Other is defined as community and individual services that cannot be categorized under any of the main services e.g. trade, catering, shipping, real estate.

- The contribution of the sectors to GDP is not proportionate to the number of people they employ
- The performance of the service and the agricultural sectors roughly corresponds with their employment figures
- The industrial sector, however, contributed a little over 22% to GDP in 2006
- Individual and community services contribute to the GDP at 17% even though they are less significant in terms of employment



## Hungary's employment structure is largely similar to that of Europe overall – but the ratio of industrial workers remains high

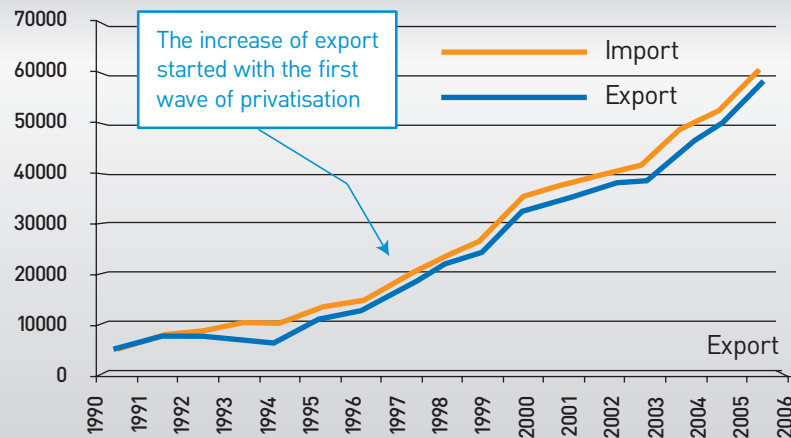


Compared to the average of the EU27, Hungary:

- has a lower percentage of agricultural employees
- has a higher percentage of industrial workers
- has a lower ratio of service sector (but regionally high)
- has an employment structure that is getting closer to that of the EU15, but is still roughly the same as the other new member countries of the CEE region.

# The economy has become open and export oriented...

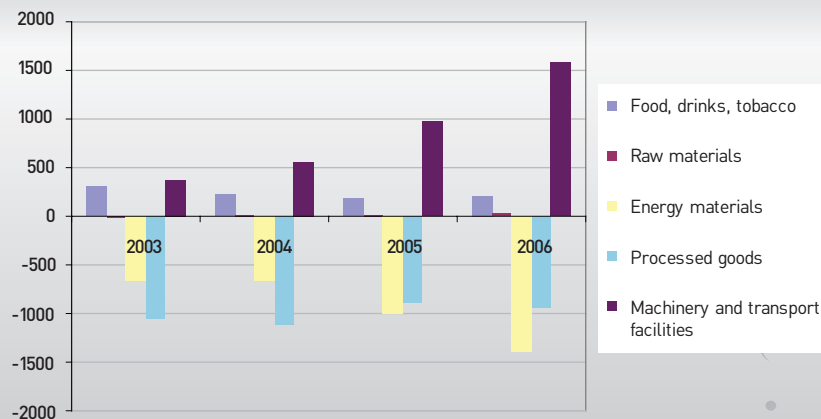
Trends in export-import (million EUR)



Source: Central Bank of Hungary – MNB

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Foreign trade turnover of production according to main commodity groups (at current price, billion HUF)



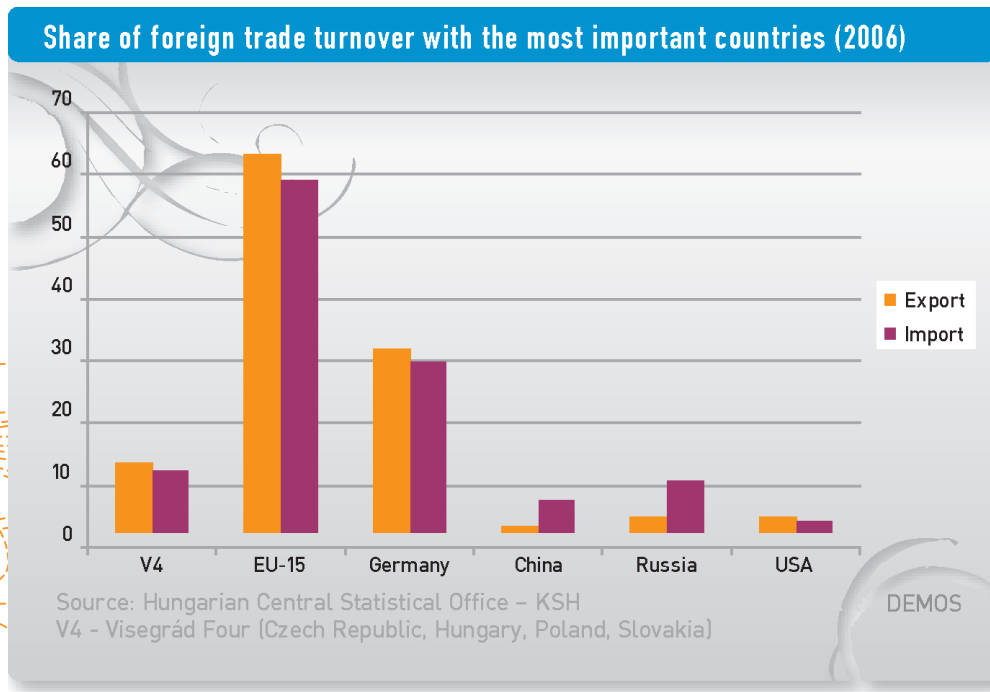
Source: Hungarian Central Statistical Office – KSH

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- The import demand of the economy has grown together with its export capacity
- Both exports and imports have increased by about twelve times since 1990; the dynamics of growth, however, slowed down in 2000 but have picked up speed since 2003
- Over the recent years, an increasing export surplus of machinery and transporting equipment has been realized in Hungarian export-import balance
- However, the import surplus of energy resources has increased and the that of processed goods remained at a high level

## ...but it mainly depends on the EU and specifically Germany

- Our main foreign trade partner is undoubtedly Germany with volumes close to the combined volume of trade with other Western European countries

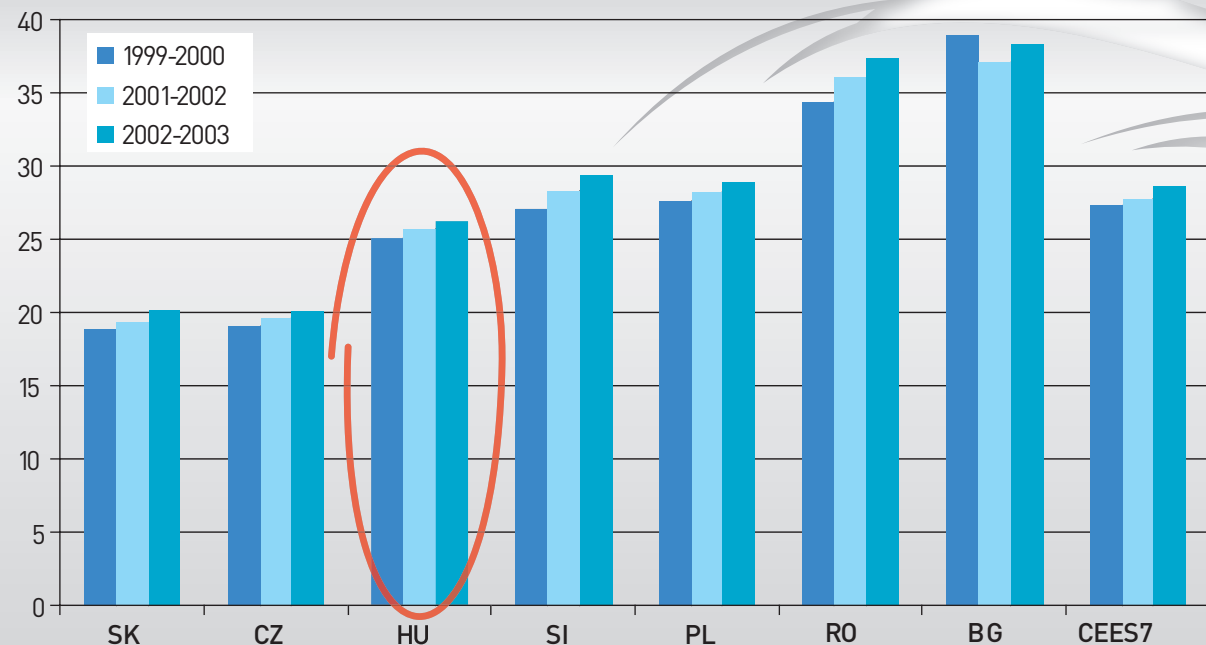


- While 61% of Hungarian exports go to the markets of the EU15 and 74% to the EU25 countries, 58 and 68 percent of our imports, respectively, arrive from those two regions
- Strong economic dependence on the EU and Germany poses a serious risk to our economic development
- Hungary is slow to regain the markets in Russia and the CEE region
- China is one of our most significant trade partners that jumped from 8th place to 4th on Hungary's import partners between 2001-2006 only preceded by Germany, Russia and Austria

## On the downside: the shadow economy is significant, though not outstanding in the region

- The ratio of the shadow economy in Hungary was estimated to be also around 20-25 percent during the years following the change of the political regime
- In regional comparison, Hungary has a much smaller shadow economy than the most recent new member states Romania and Bulgaria
- Yet, the estimated strength of the shadow economy in the Czech Republic and Slovakia is approx. 5 percent less than in Hungary
- The shadow economy is 26 percent in Italy, 10 in Austria and around 16 in the 21 most advanced OECD countries

The strength of the shadow economy (percentage of the GDP) in 1999-2000, 2001-2002 and 2002-2003



Source: Hungarian Central Statistical Office – KSH

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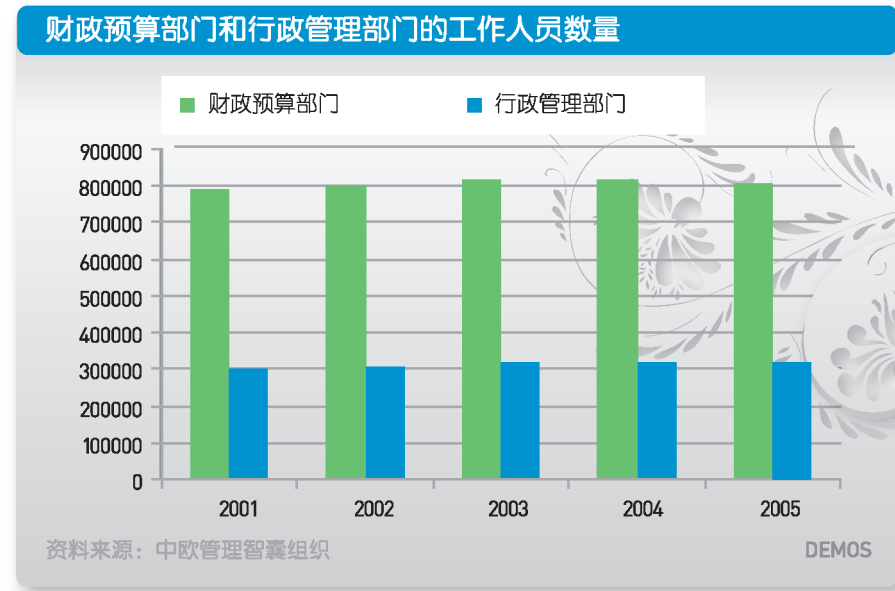
- Being approximately one-quarter (25%), the shadow economy is still huge and creates a challenge to “whiten” Hungary’s economy



## Even with the government's role being reduced, the proportion of civil servants is slow to decrease

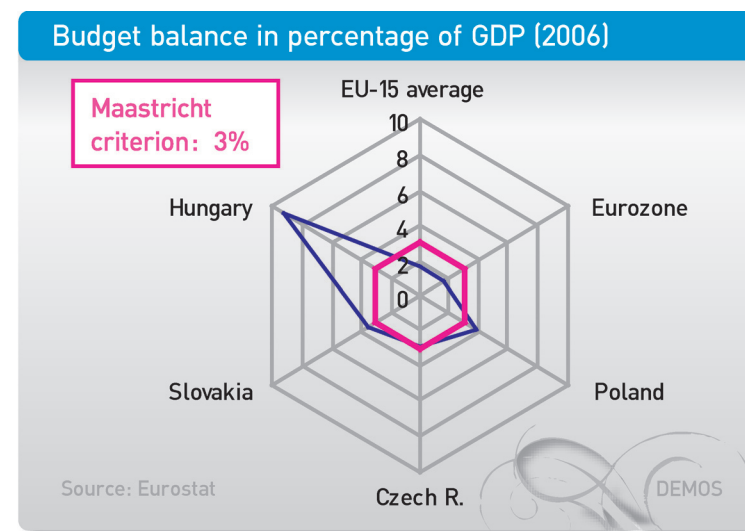
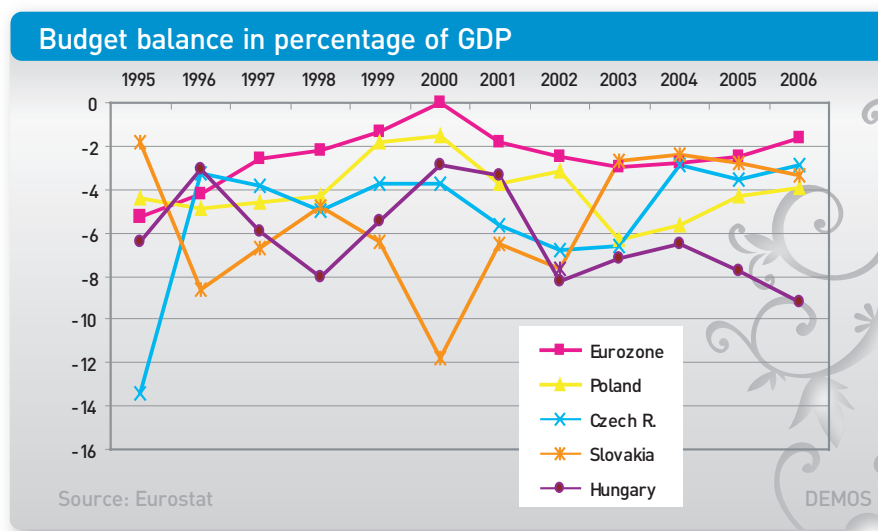


- The average ratio of government employees in the European Union is 14 percent
- Since 2003, the number of civil servants has been slowly decreasing
- To make matters worse, the Hungarian employment rate is way below the EU average and the state has to provide more citizens with social benefits while less money is available due to fewer employees and the less developed economy



- 318,000 of the total number of employees of 806,000 worked for the civil service in 2005
- 8 percent of the population works for budgetary institutions while only about 5 percent in Austria, in the Netherlands and in Germany

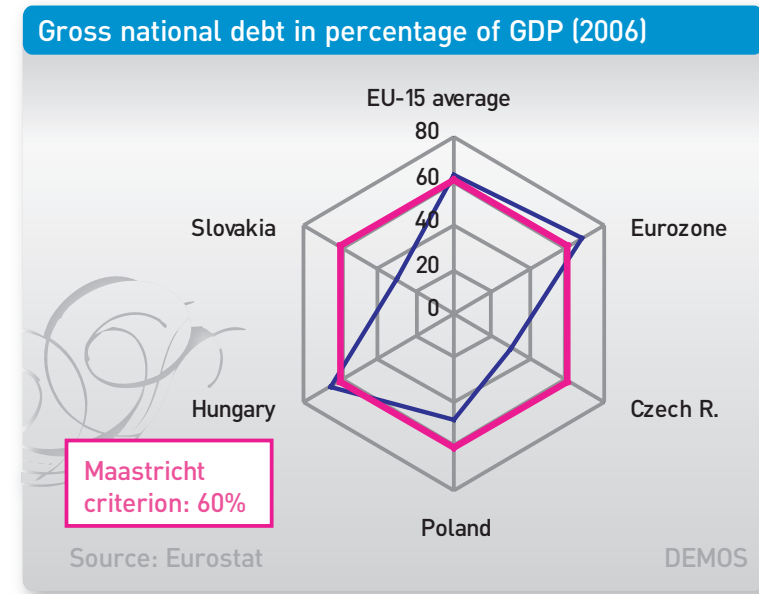
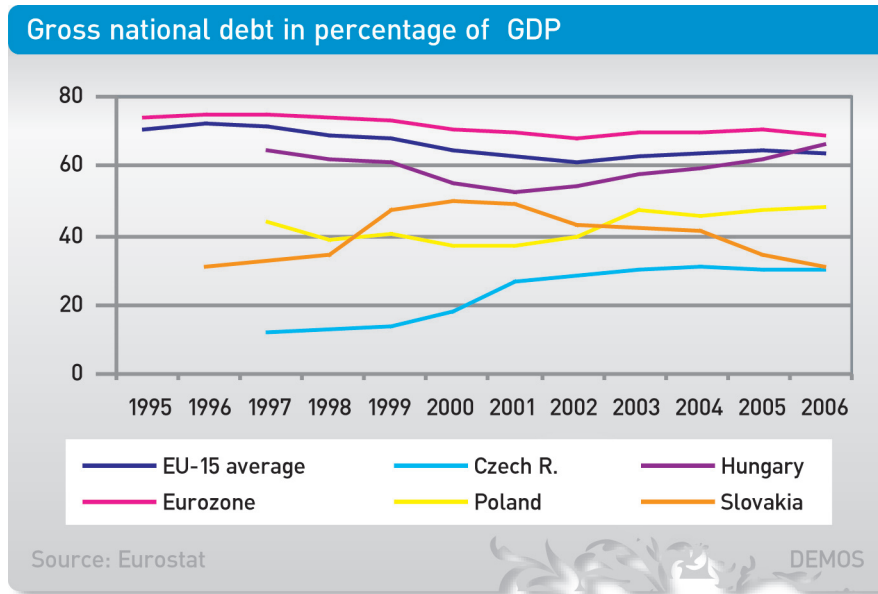
# The budget deficit has not been reduced to a desirable level



- The unfavourable tendency in the government deficit is one of the greatest risks of the national economy
- The stabilisation measures of 1995 had only temporary benefits for the government budget
- Government overspending is especially significant in election years

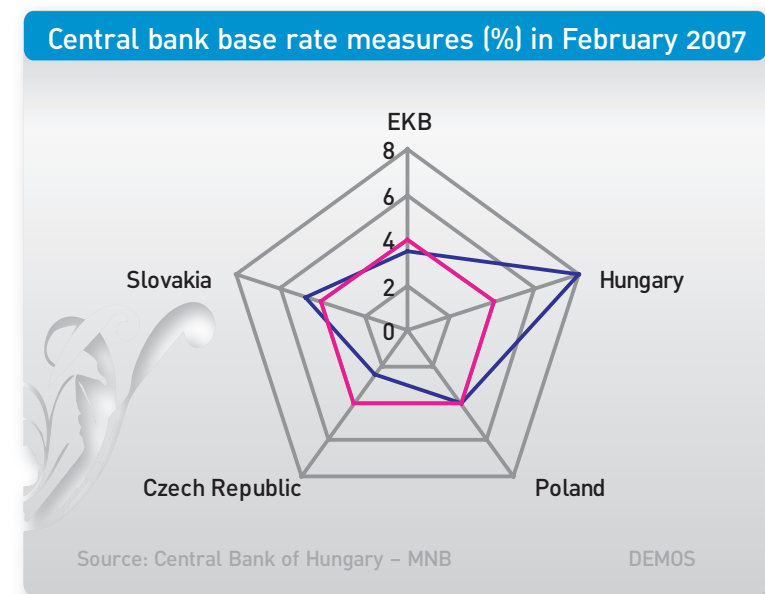
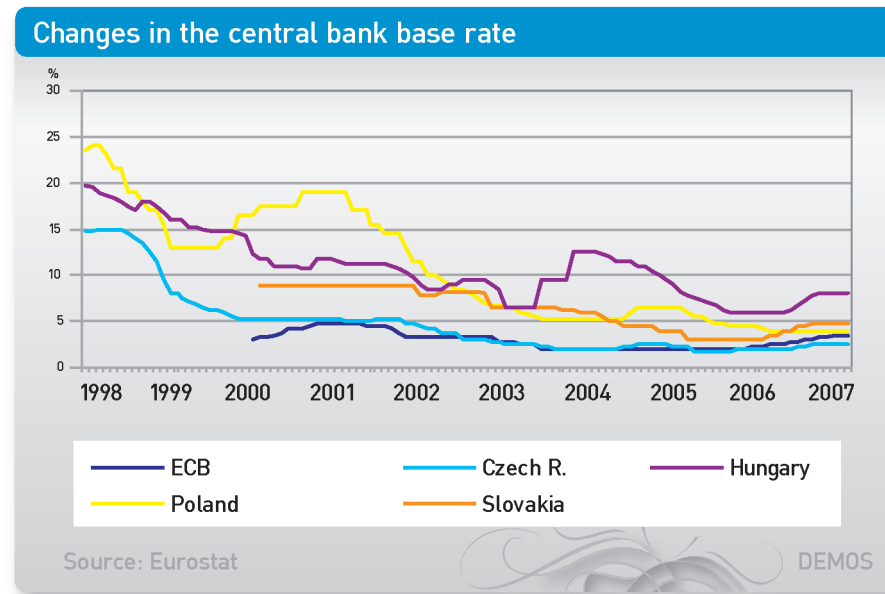
- Budget deficit as a percentage of GDP grew again between 2004-2006, but expert expectations and the government's convergence programme forecast a deficit level close to the EU requirements
- The budget deficit in the other countries of the region has converged with the 3 percent level defined in the Maastricht criteria since 2003

# Gross national debt once again has exceeded the limit



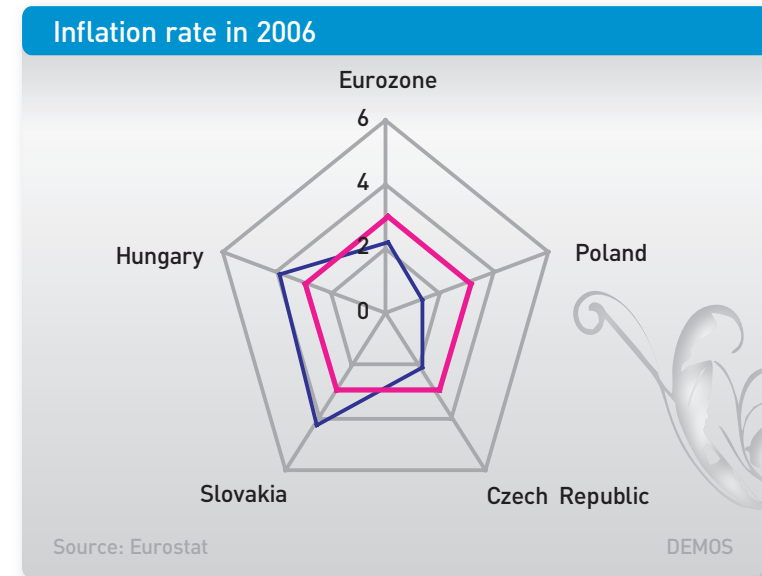
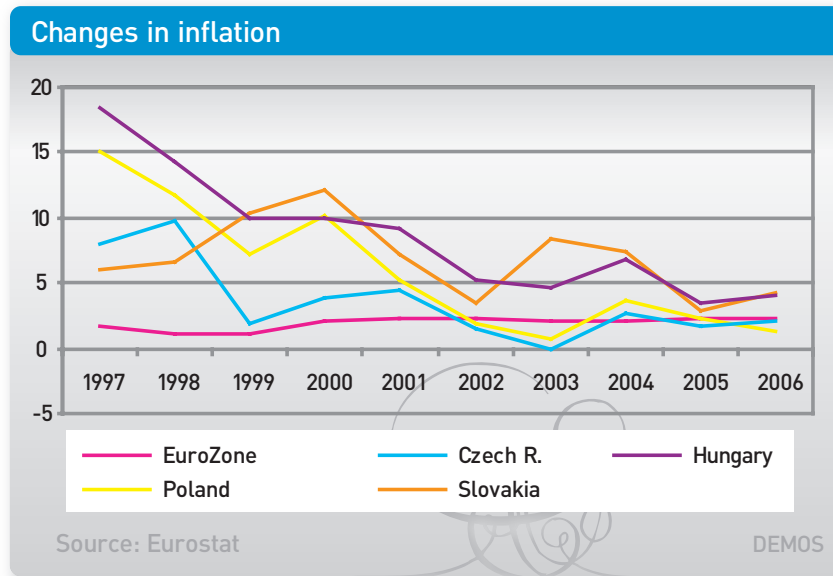
- High national debt is a part of the heritage from the socialist era
- Debt servicing has been placing a huge burden on the national economy
- Indebtedness reached an acceptable level in 2000 but in 2005 Hungary once again crossed the limit of 60 percent defined in the Maastricht criteria
- Hungary's convergence programme promises to reduce the gross national debt to close to 60 percent after 2008
- Hungary is the only country in the region that does not meet this precondition for the introduction of the Euro
- Interestingly enough, national debt is on average more than 60 percent in both the Eurozone and in the EU15

## The increase of the central bank's primary rate since September 2005 has stopped



- Between 1995-2003, the central bank's primary rate gradually decreased from 28 to 6.5 percent
- The central bank increased the primary rate in several stages until 2003 November, when a cautious reduction programme began
- Between September 2005 and October 2006 the primary rate rose from 6 to 8 percent and is expected to decline from 2007 on

# Inflation in Hungary and in the other countries of the Visegrád Group has gradually declined over the past decade

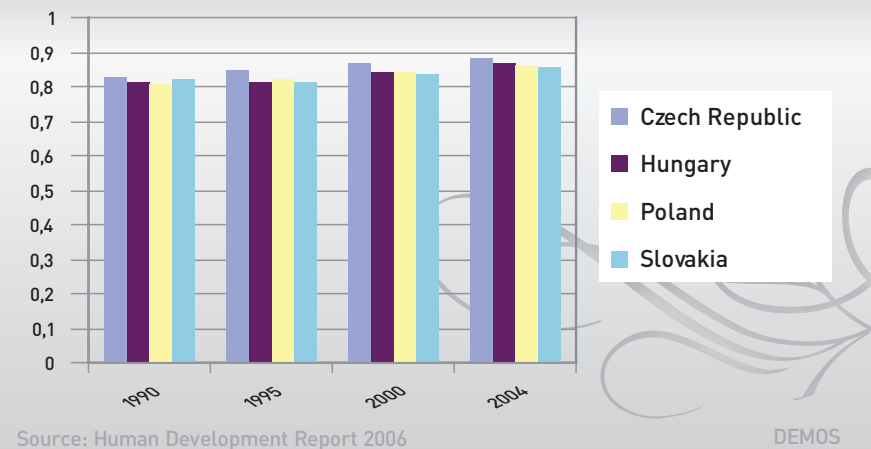


- Aside from some short periods of reversal, inflation has gradually declined in the V4 countries
- The annual level of inflation was 4 percent in 2006
- As a consequence of the government's measures inflation temporarily rose after September 2006; it peaked in March 2007 and has been declining continuously since
- According to the government's convergence programme and expert predictions the average level of annual inflation will drop to 3 percent by 2009

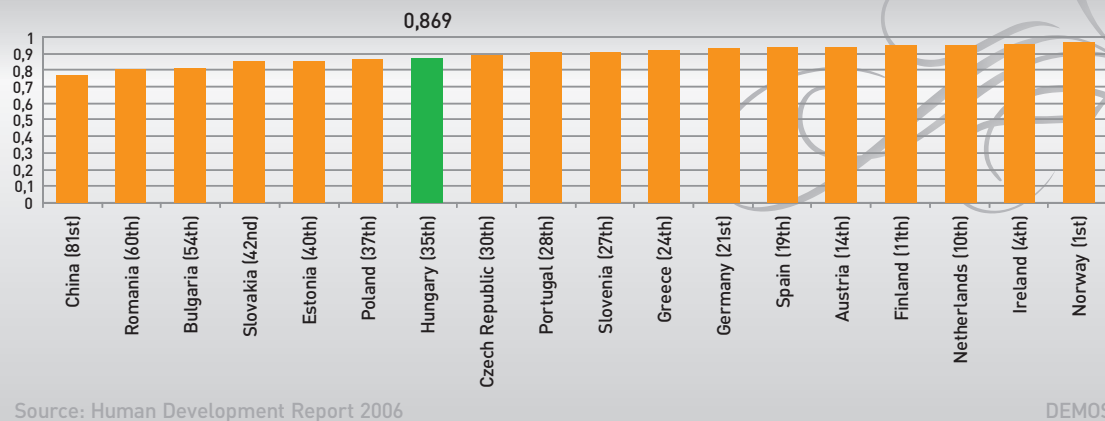
## Based on the Human Development Index, there are no big differences among the Visegrád Four

- The 30-year trend of the Hungarian Human Development Index (HDI) illustrates that except for the period of the change of the political system, the quality of life has gradually increased
- Based on 2004 data, Hungary is ranked 35th on the global Human Development Index before Poland (37<sup>th</sup>), Slovakia (42<sup>nd</sup>), the Baltic states and Romania (60), but a little down on the list from the Czech Republic (30<sup>th</sup>), Slovenia (27<sup>th</sup>) and Portugal (28<sup>th</sup>)

HDI value in the Visegrad countries



Ranking based on the Human Development Index values (2004)



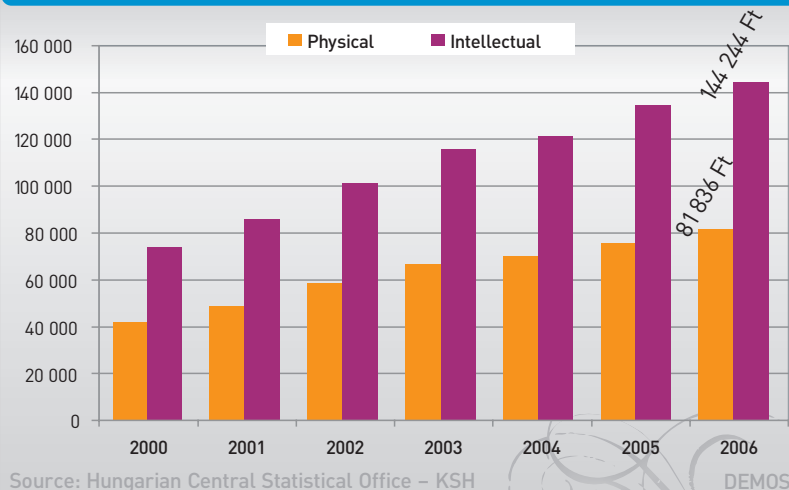
HDI describes a country's general results based on three basic areas of social development: life expectancy at birth; literacy and education level; gross domestic product based on purchasing power parity.

The index has values between 0 and 1 with the more developed countries having higher results.

## Real wages are on the rise; regional differences remain steady

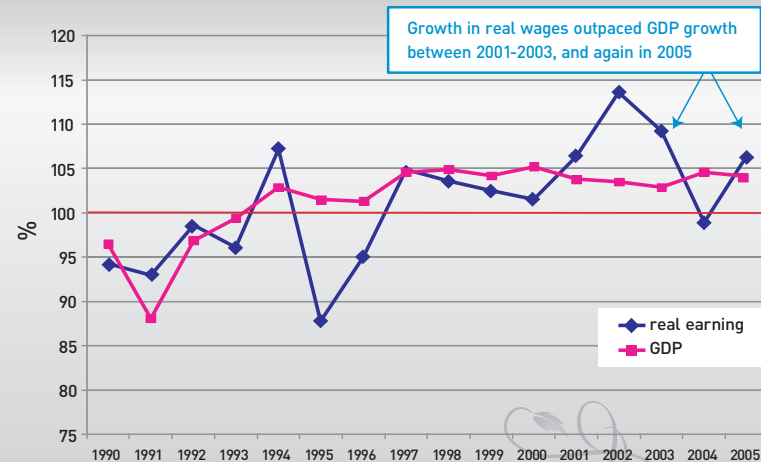
- Real wages declined in 2004
- Wage inequalities between white-collar and blue-collar professions have increased: wages for white-collar employees are growing much faster

Average net income (2000-2006)

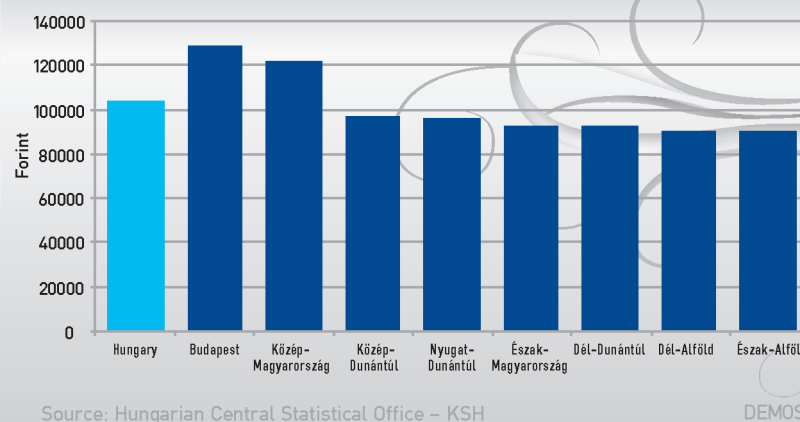


- The average net income for full-time employees in April 2005 was 99,000 HUF
- The average income in Budapest is almost one and a half times more than that in the poorest region (Észak-Alföld)

Changes in real earnings and GDP (1990-2005, previous year = 100%)



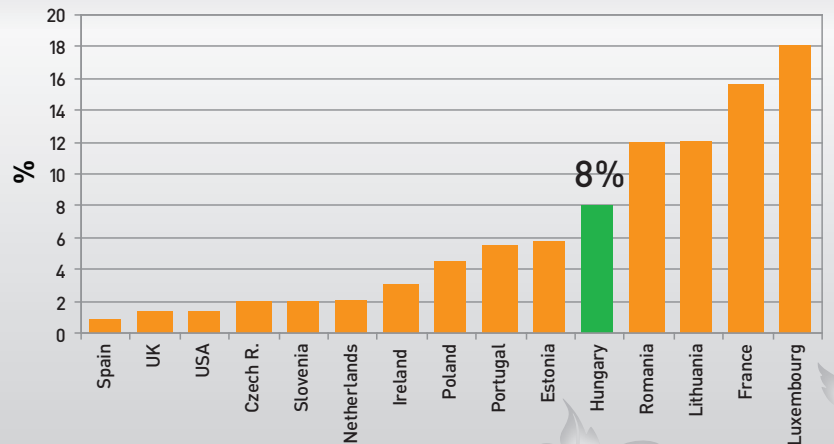
Average monthly net income of full-time employees by regions (2005)





## Proportionately, Hungarian minimum wage is at the European average

The proportion of minimum-wage employees among full-time employees (2004), %



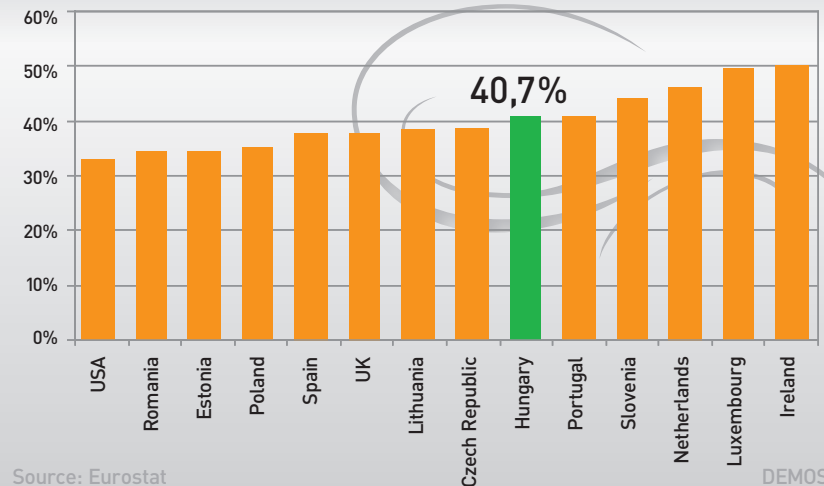
Source: Eurostat

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- The minimum wage in Hungary is close to 40 percent of the average wage
- Internationally, this ratio is between roughly 30 and 50 percent, so Hungary is right in the middle of this zone

- The higher proportion of minimum-wage employees cannot be taken as a clearly positive or negative phenomenon – it may either mean that more make less but may indicate a smaller black economy
- The Hungarian rate is higher than in most of the countries joining the EU with us, but is lower than in France or Luxembourg

The ratio of the minimum wage compared to the average wage in the industrial and the service sectors (2004)

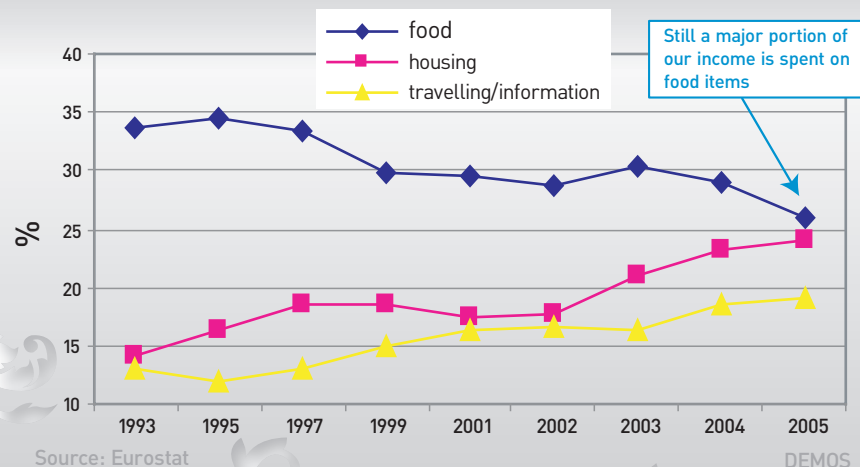


Source: Eurostat

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# Economic growth is modestly reflected in everyday life

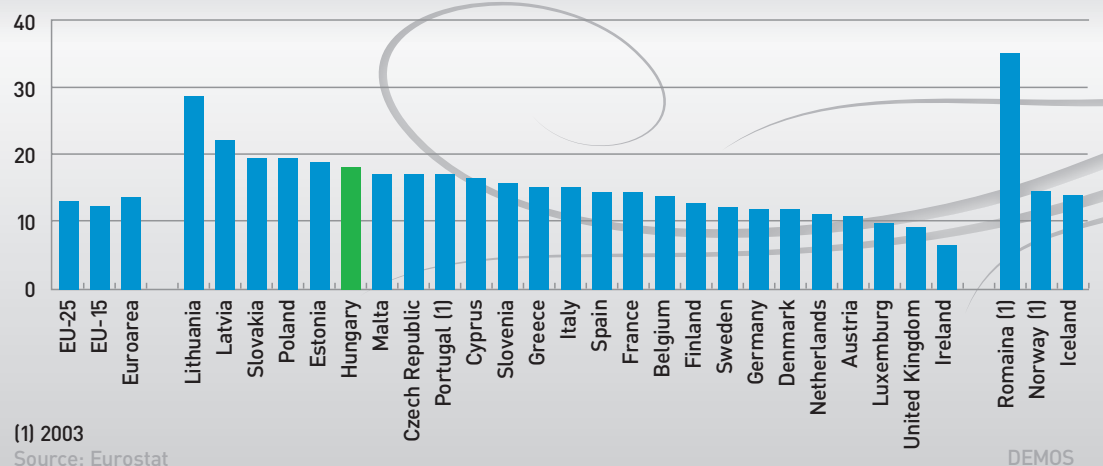
Food, housing, travel and information expenses



- Approx. 26 percent of our income is spent on basic food items, but this figure is almost 24 percentage less than the record in 1995
- An increasing portion of our income is spent on household expenditures and telecommunications
- In European comparison, the percentage of income spent on food items in Hungary is high (close to 20%) as the average is around 15% in the countries of Western Europe

- The main reason is that Hungarian wages are lower so that a higher percentage of that has to be spent on subsistence

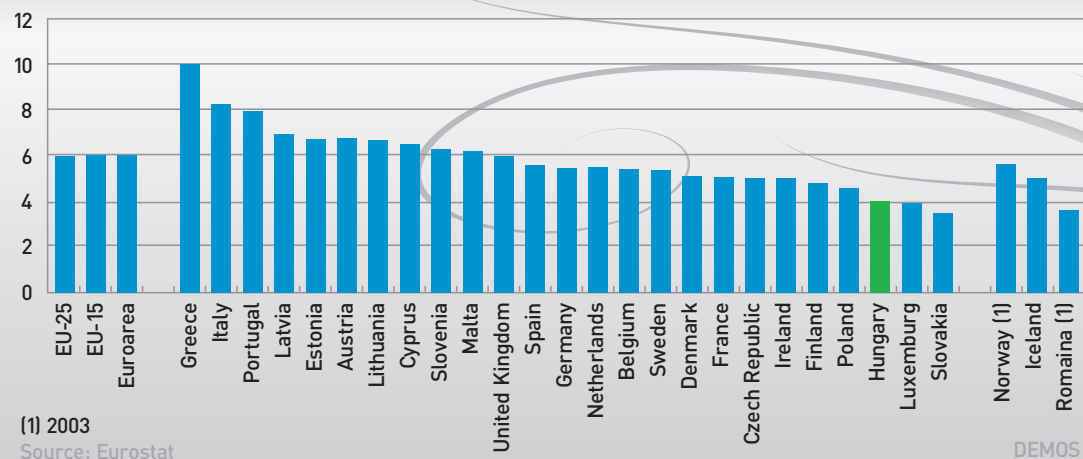
Household expenditure on food and non-alcoholic beverages (2004)  
% of total household consumption expenditure



## Little is spent on clothing and footwear, more on household expenditures

Household expenditure on clothing and footwear (2004)

% of total household consumption expenditure

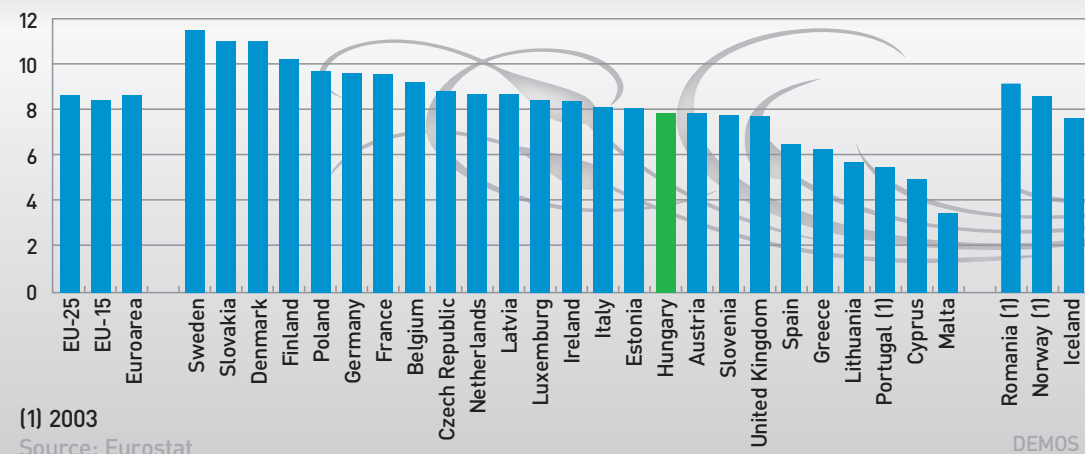


- In 2004 Hungarians spent close to 20 percent of their income on household expenditure, which places us in the medium range of all of Europe

- In European comparison, we spend only a small portion (4 percent) of our income on clothing and footwear

Household expenditure on housing, water, electricity, gas and other fuels (2004)

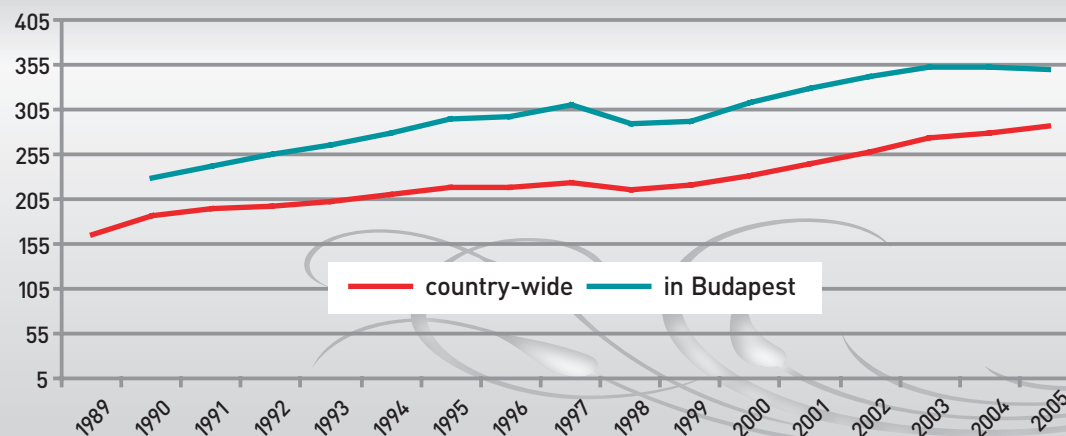
% of total household consumption expenditure



# Hungarians buy more durable goods

- The number of mobile phones and TV sets per 100 households was the same in 2005
- The equipment of households has gradually grown since 1995
- The increase in the expansion of durable goods is due to their declining price and the availability of consumer credit

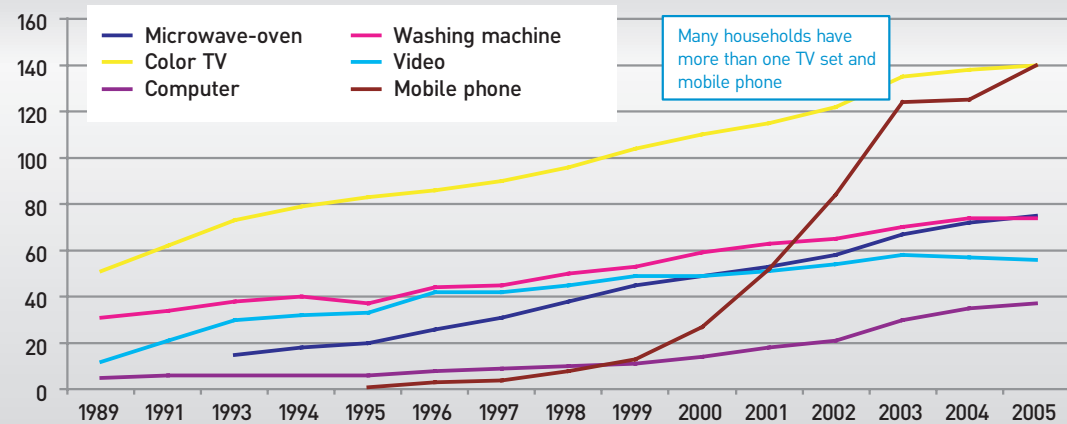
Stock of automobiles per 1000 inhabitants (1989-2005)



Source: Eurostat

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Number of long-lasting goods for 100 households



Source: Eurostat

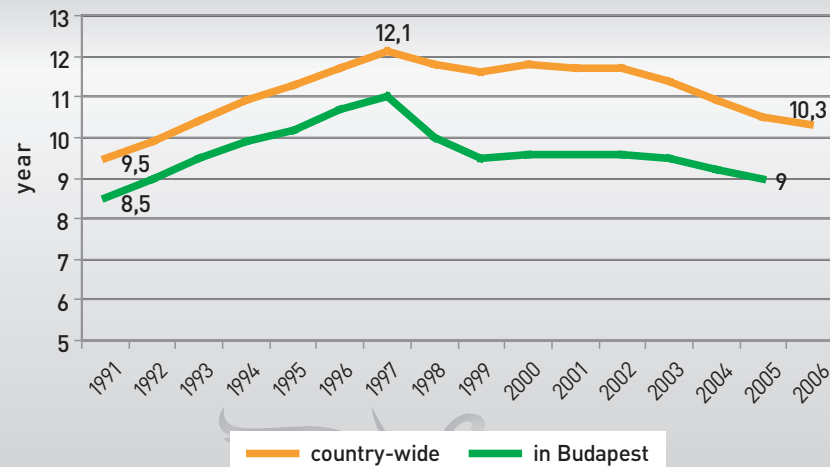
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- Compared to the time of the change of the political regime over 1 million more vehicles are now on the road
- The number of vehicles per 1000 residents is constantly growing

## Our car fleet has been replaced, but is still old

- Over the past one and a half decades most of our car fleet has been replaced, but the average vehicle age is even higher than in 1991
- The average car age was the highest in 1997 at 12 years
- By now the average age has gone down to 10 years and it is even lower in the capital

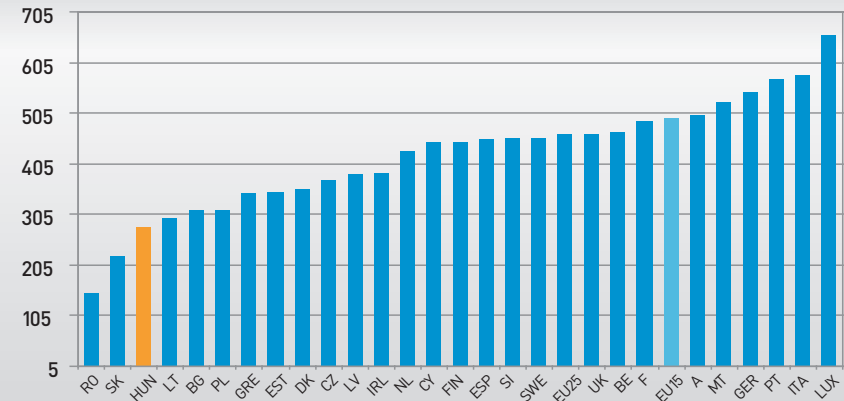
Average age of the automobiles (2002-2006), years



Source: Eurostat

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Stock of automobiles per 1000 inhabitants in the EU (2004)

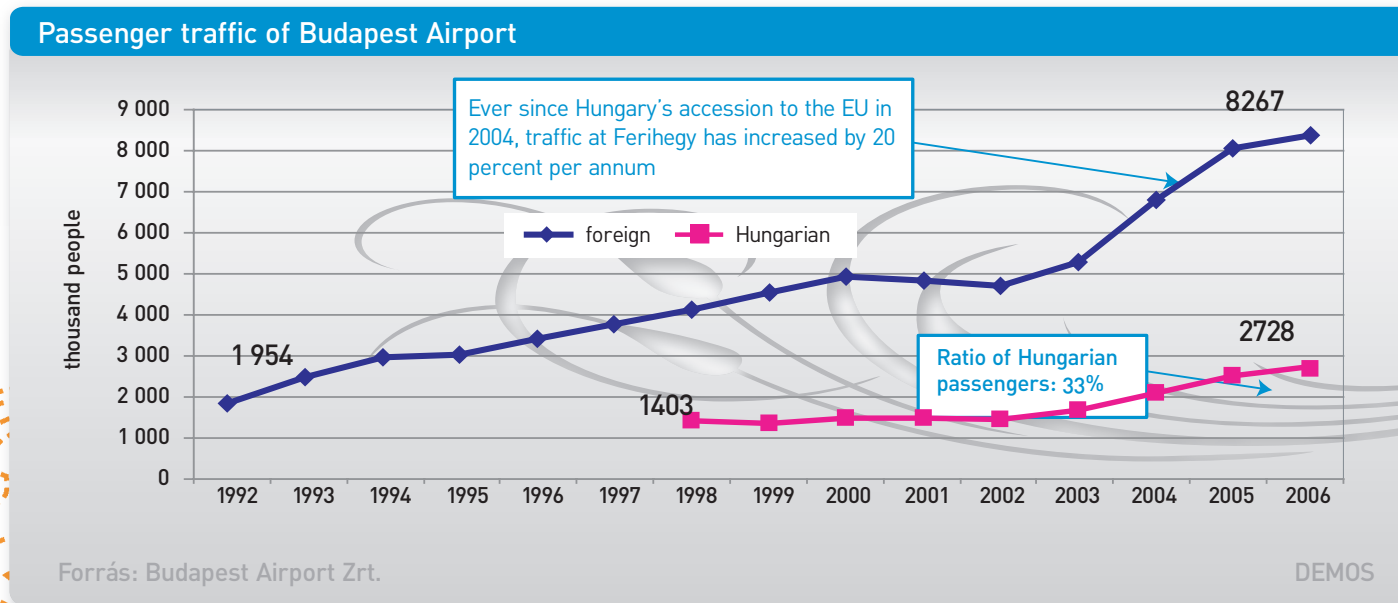


Source: Eurostat

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- Only Romania and Slovakia have fewer cars per 1000 people than Hungary

## More Hungarians fly as the number of opportunities increase and prices decrease

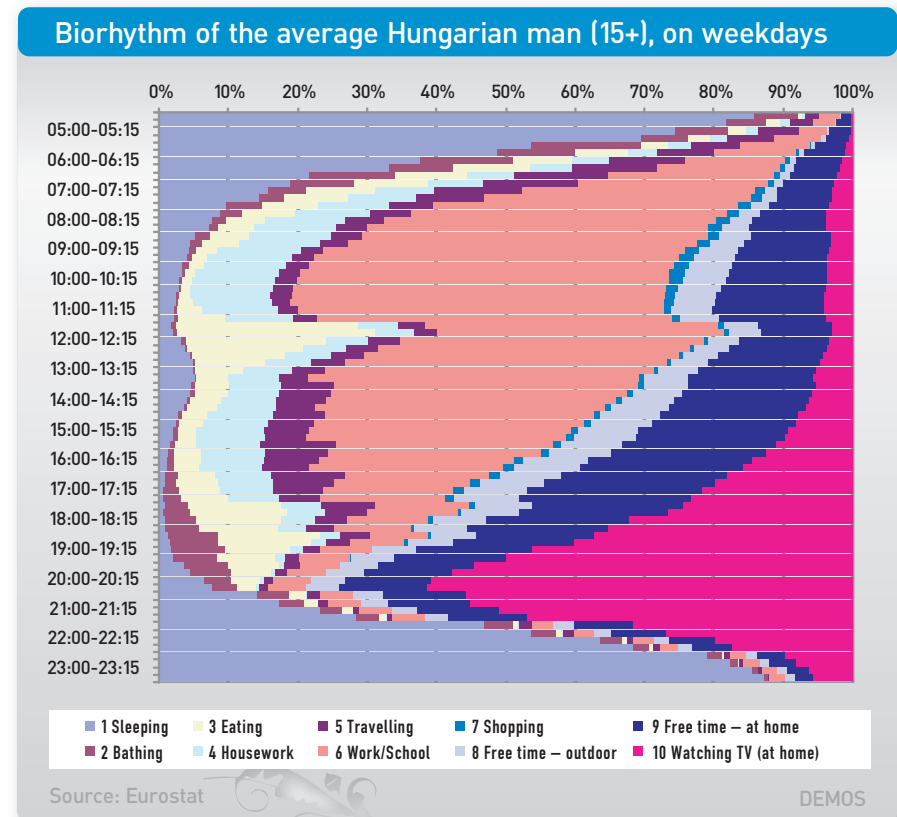
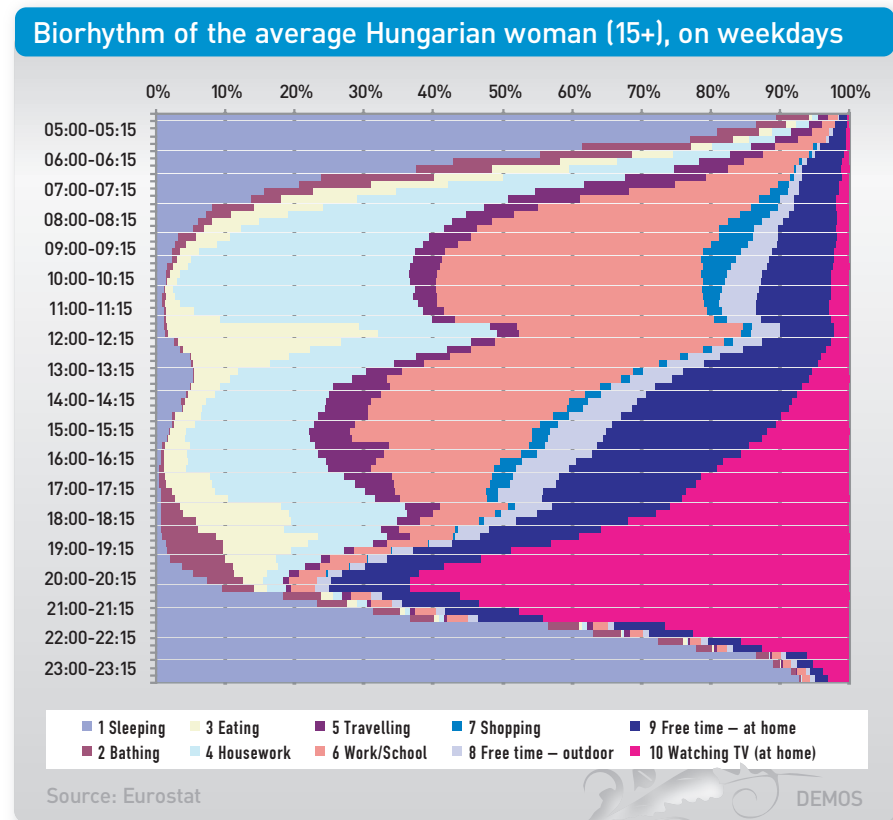


- Due to Hungary's EU membership and the appearance of discount airlines, the once stagnating air traffic industry has been revolutionised

- Falling ticket prices and the increasing number of destinations allow more Hungarians to learn about the cultures of other European countries

## The second job of Hungarian women is their home; half of the population watches TV between 8 and 9.30 p.m.

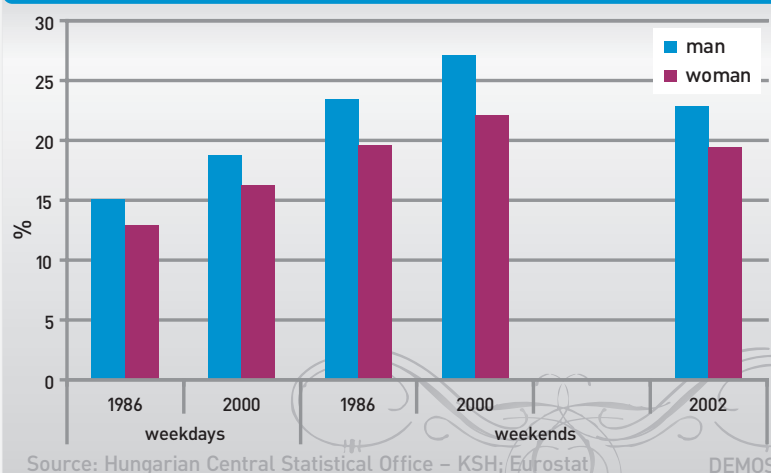
- The second job of Hungarian women is their home: they work about the same time at home as at work
- Daily shopping is typically the women's chore



- Close to one half of Hungarians spend at least two hours in front of the TV set
- Half of the population sits in front of their TV sets between 8 and 9.30 p.m.

## Leisure time is continuously increasing, but the ratio of cultural activities has not changed

Free time of people between 15-74 per day (1986, 2000)

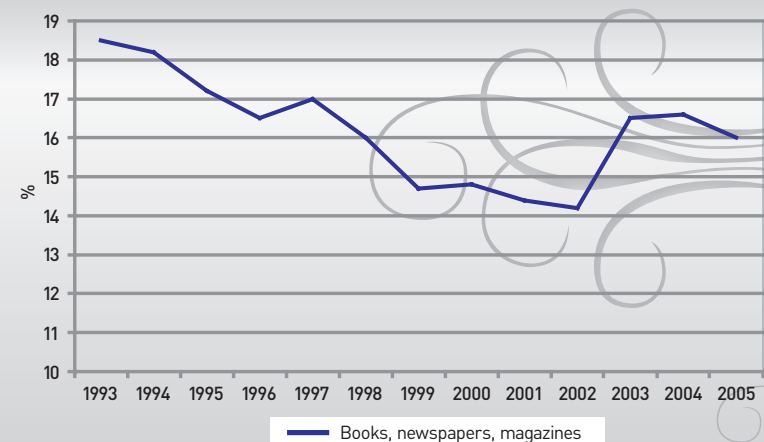


Source: Hungarian Central Statistical Office – KSH; Eurostat

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- According to the time balance records, the amount of free time for both men and women first increased but then fell back by 2002
- Gender differences continue to exist in this regard

Spending on culture out of all free-time spending, 2000

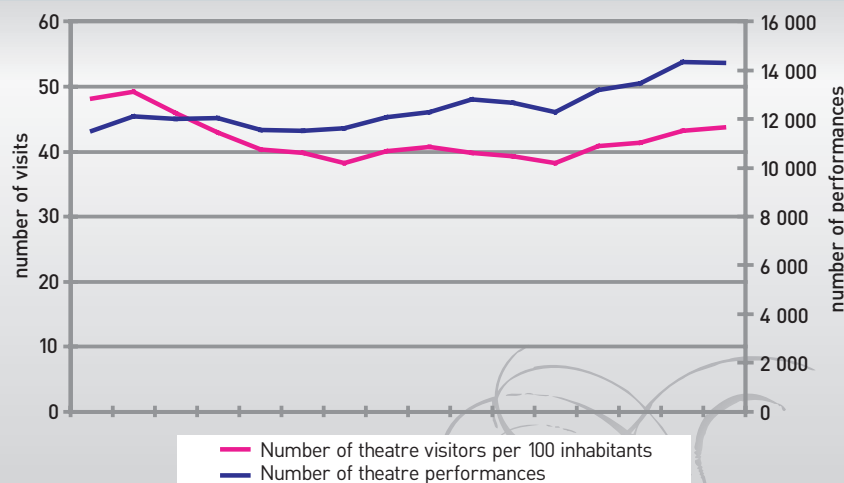


Source: Hungarian Central Statistical Office – KSH; Eurostat

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- Theatre going habits have not changed even though the number of performances has increased

Theatre performances and number of visitors per 100 000 inhabitants (1990-2005)



Source: Hungarian Central Statistical Office – KSH; Eurostat

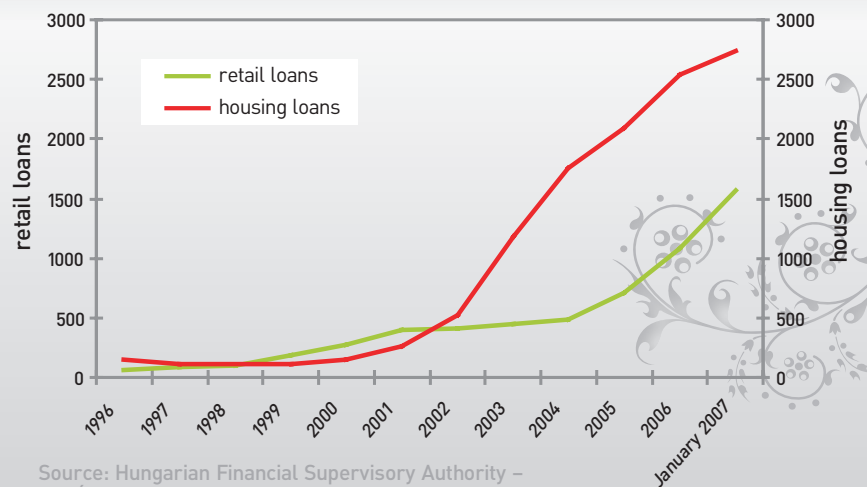
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- Book and newspaper consumption slowly declined until 2002, began to increase in 2003, but then the trend stalled



## A significant proportion of our growing expenditures is financed by credits, and we do not save as much as we used to

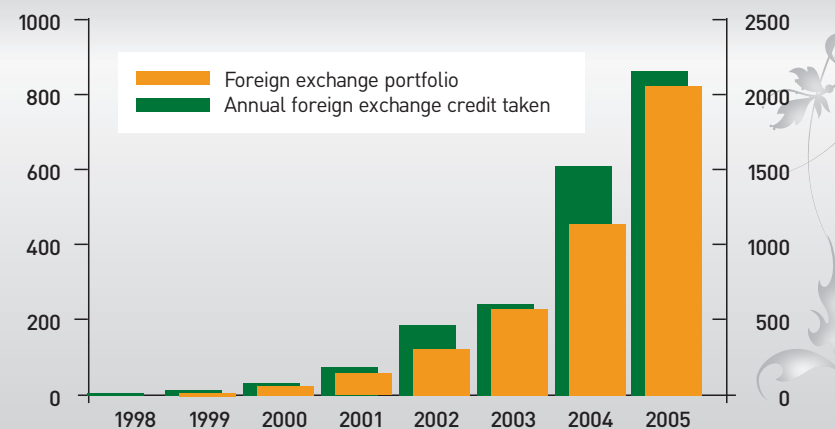
Stock of the banking sector's retail loans, consumption loans and housing loans (billion HUF)



Source: Hungarian Financial Supervisory Authority – PSZÁF (until 2002), Central Bank of Hungary – MNB (since 2003)

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The population's annual foreign exchange credit and foreign exchange portfolio (billion HUF)



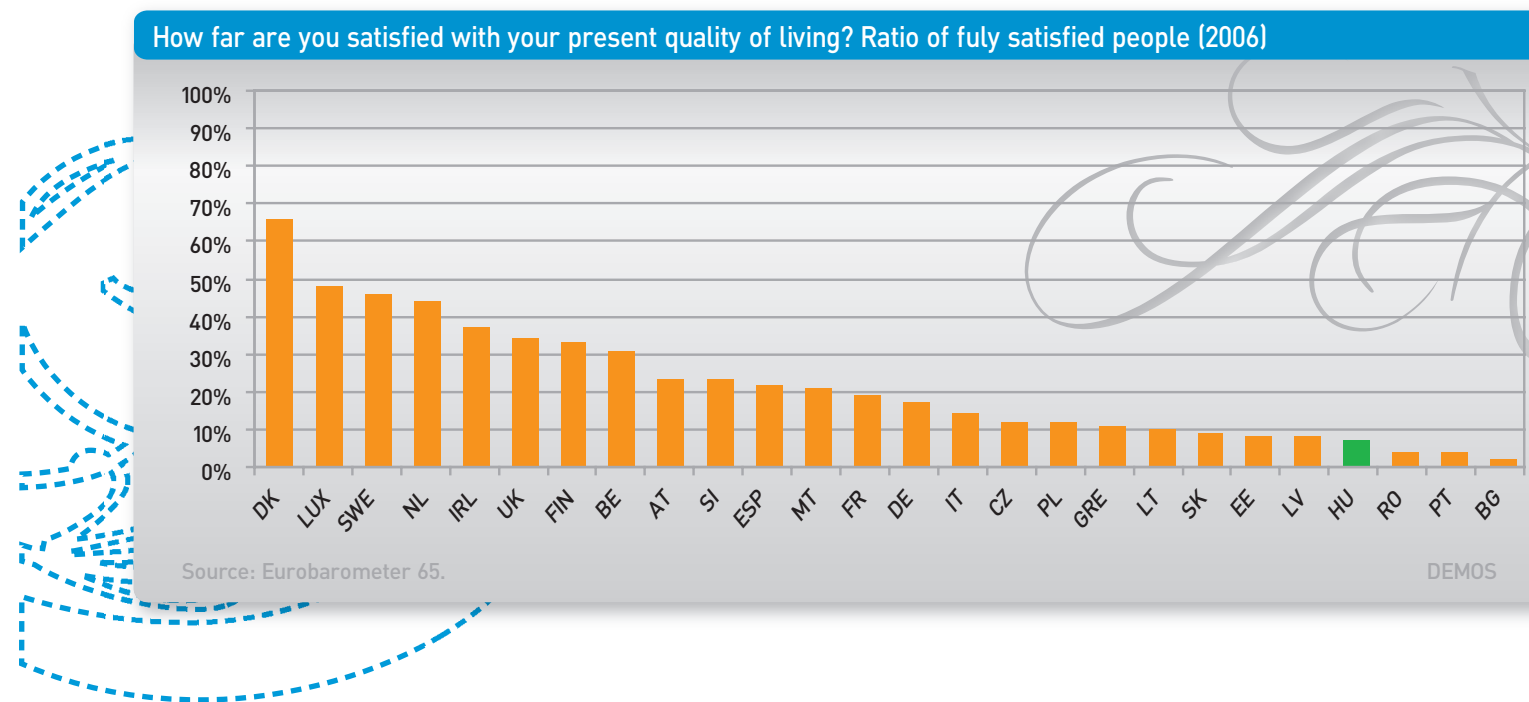
Source: Central European Management Intelligence – CEMI; Central Bank of Hungary – MNB

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- Residential foreign-currency credit has increased exponentially
- Between 2004 and 2005 residential consumer credit has almost doubled
- The volume of residential consumer credit has significantly increased since 2004 and housing credit since 2002

# We are not satisfied with our current quality of life

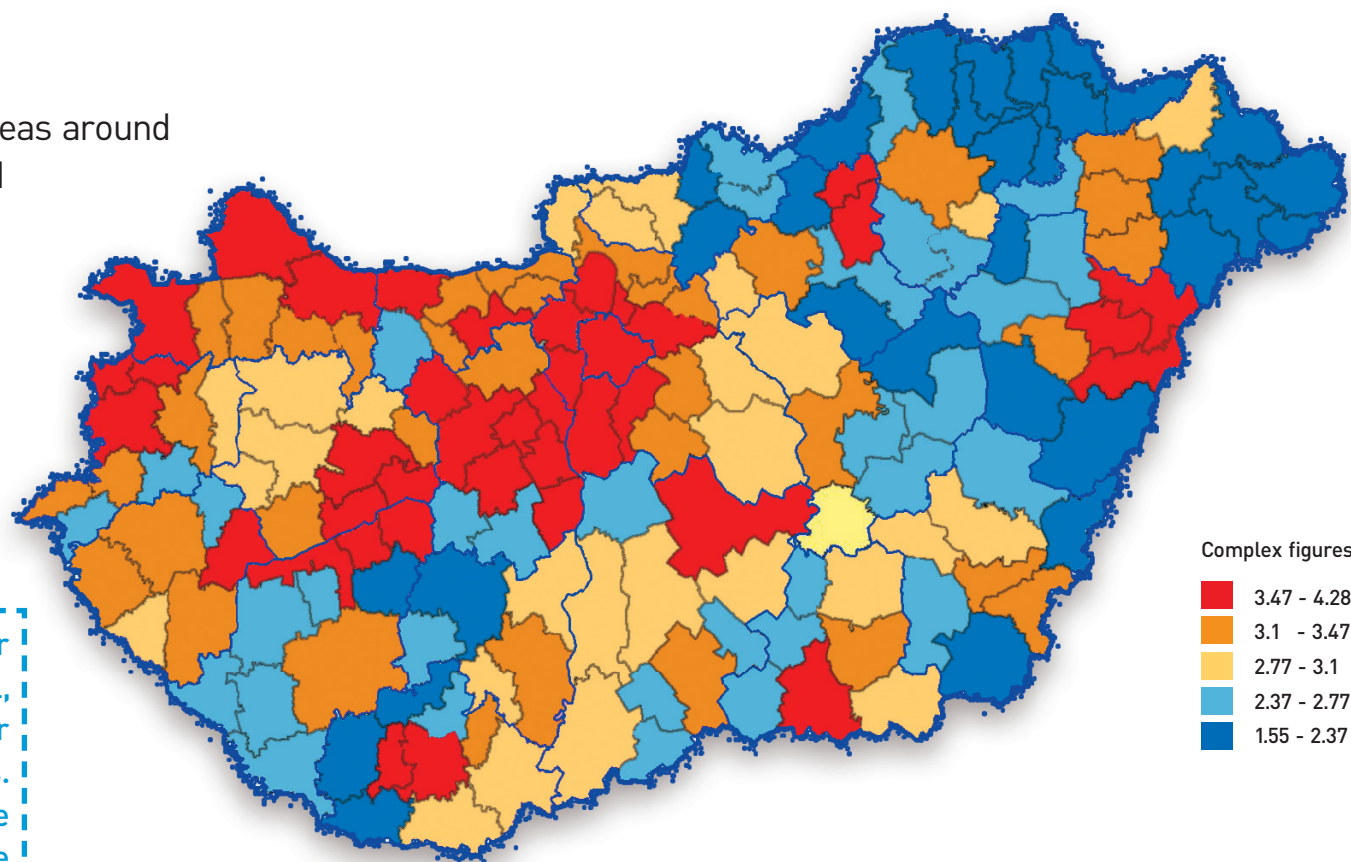
- Within the EU, Hungary has the fourth lowest ratio of those people who are completely satisfied with their lives
- We consider our quality of life lower than people in countries where objective living conditions are even significantly worse



# Sharp regional differences in development levels

- The most developed small regions are in the centre and in the West of the country
- Regional centres and the areas around Lake Balaton are developed

Hungary's socio-economic development\*, 2004



Complex figures

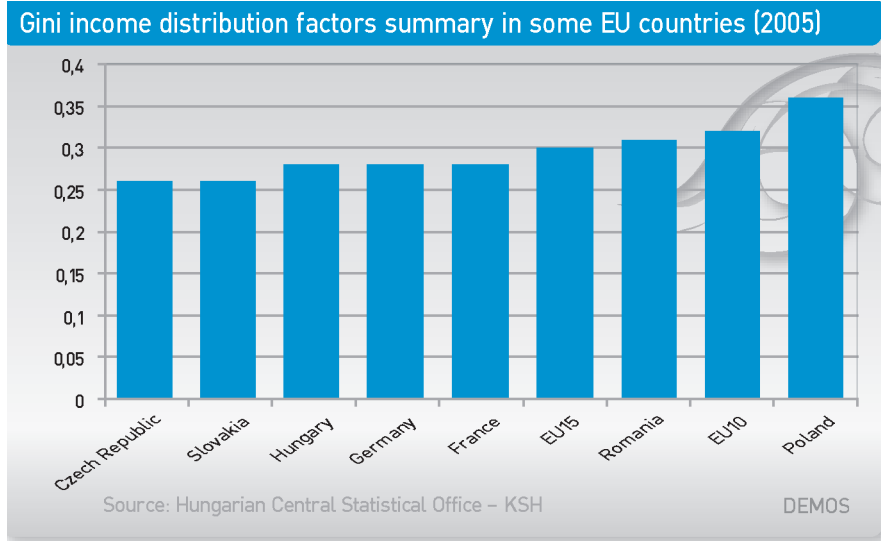
Red	3.47 - 4.28
Orange	3.1 - 3.47
Yellow	2.77 - 3.1
Light Blue	2.37 - 2.77
Dark Blue	1.55 - 2.37

The complex index reflects four economic, seven infrastructural, six sociological and two labour market development indicators. The higher the index the more developed the small region. The most developed areas are shown in red on the map.

Source: Hungarian Public Nonprofit Company for Regional Development and Town Planning – VÁTI

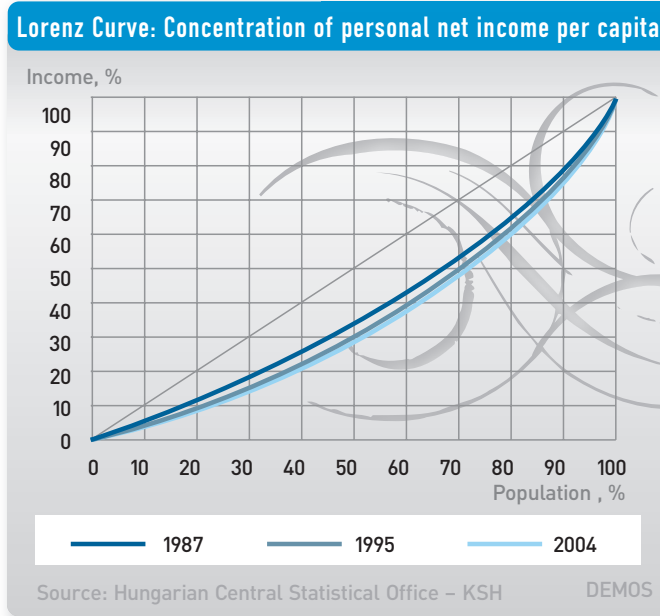
\* based on the indicators set in Decree 24/2001 OGY

# Income differences are slowly increasing, but are not extraordinarily high in international comparison



The Gini coefficient is the indicator for income distribution. The value is between 0 and 1. The higher the number, the more significant the differences.

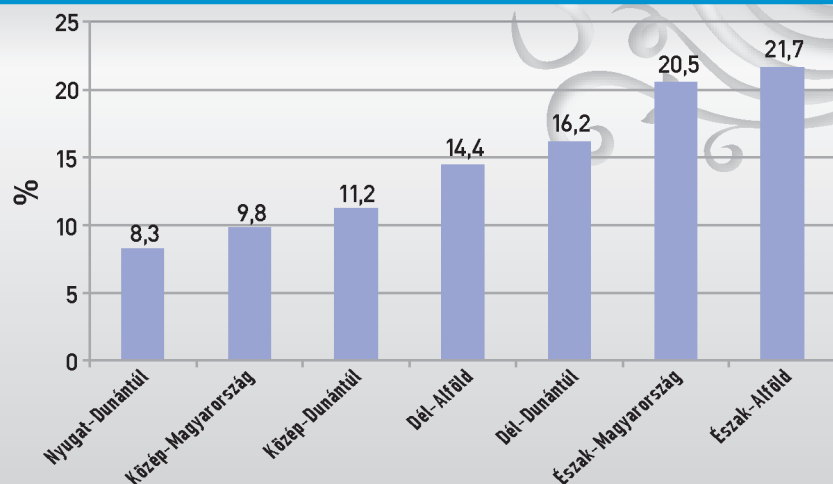
- Income differences have slightly increased over recent decades but are still not very high in international comparison



The Lorenz Curve indicates the concentration of income. If the curve corresponds with the diagonal line, distribution is steady in society. The farther the curve from the diagonal line, the larger the differences.

## Even though the economy has grown, not everyone enjoys its benefits: the poverty rate is especially high among the Roma population

Ratio of poor or deprived people in the population between 18-74

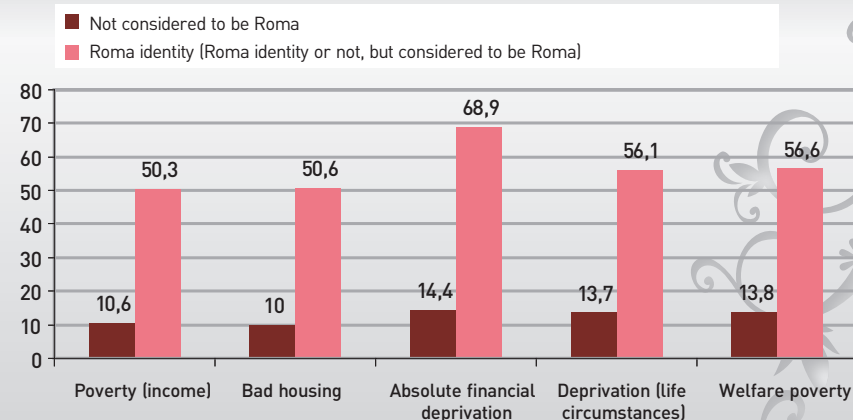


Source: Central Bank of Hungary – MNB

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- Poverty continues to be a significant problem: depending on the definition 1.2 to 1.8 million, i.e. one-sixth to one-seventh live below the poverty level
- Poverty is the most typical in the northeastern part of the country

Ratio of poor or deprived people in a defined, and all Roma population between 18-74 (%)



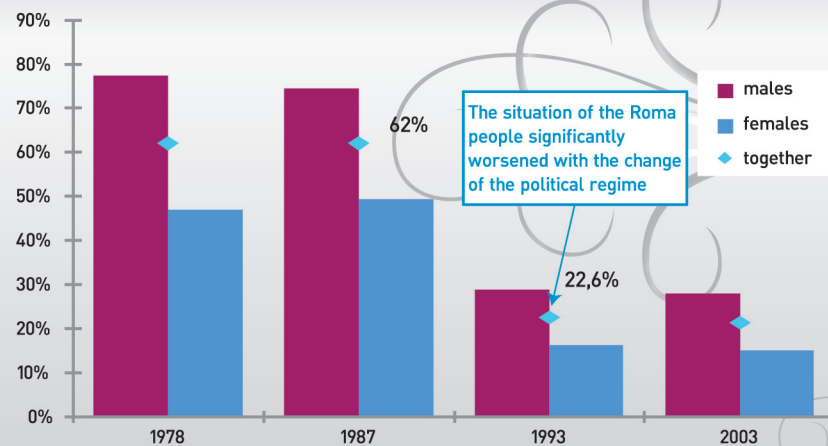
Source: Eurostat

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- In the census of 2001, 189,984 declared themselves as Roma in the census of 2001, but experts and Roma organisations estimate the actual figure is much higher, approx. 450,000 to 650,000
- Roma people are the big losers of the change of the political regime: mass unemployment, lack of training and the results of discrimination are apparent from the statistics
- Depending on the definition used, 50-69% of the Roma population live below the poverty line

# Halting the process of social exclusion is impossible without effectively treating the social issues of the Roma population

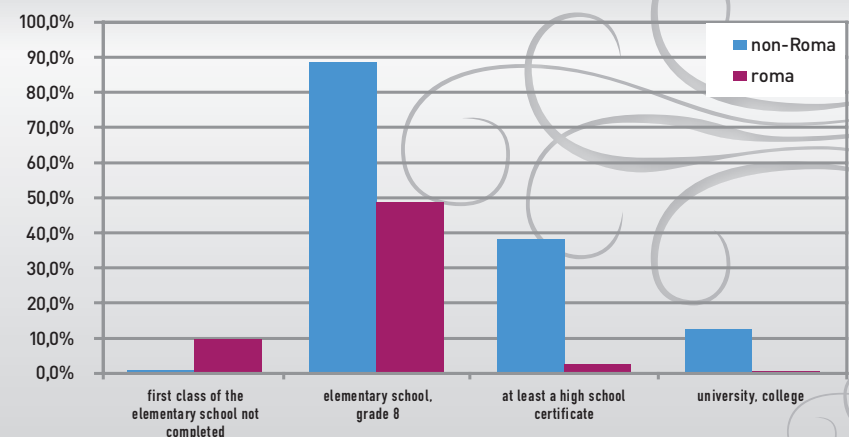
Gipsies employed as a percentage of all working-aged population (1978-2003)



Source: Kemény-Janky-Lengyel (2004)

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School education of Roma and non-Roma population as a percentage of relevant age (2001)



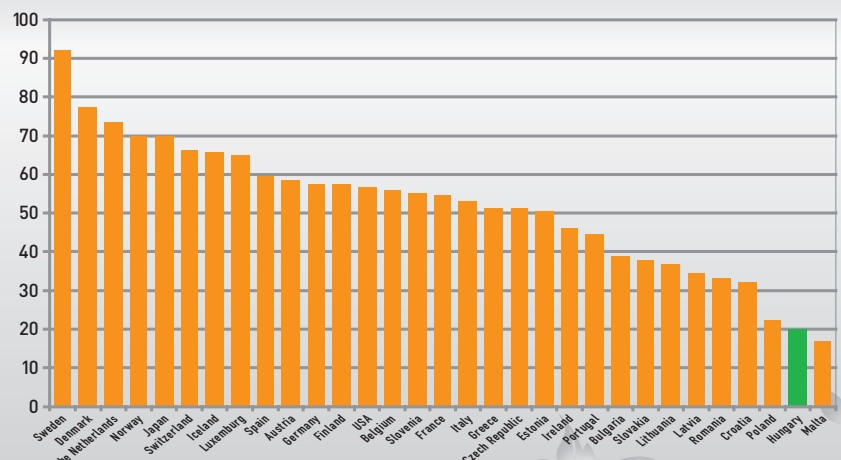
Source: Hungarian Central Statistical Office – KSH

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- Over half of the working age Roma population lost their jobs in the transformation to the market economy
- Less than half of the Roma population is employed and three to five times more are unemployed compared to the non-Roma population: the difference is the greatest in the Trans-Danubian region and in Eastern Hungary
- The number of dependents per wage-earner is three times the national average

# We reject “being different”

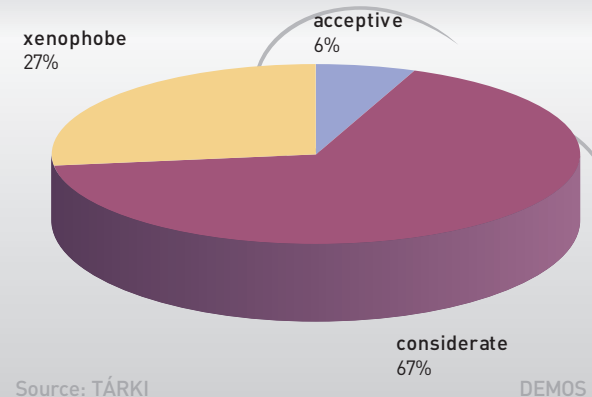
Eu tolerance index (EU25 + USA, Japan, Norway, Bulgaria, Romania, Croatia) (1995-2000)



Source: World Values Survey, Elte-Ithaka

The index shows how societies related to traditions, foreign workers and considers the type of self-expressing values. The lower the value the more rejective the people.

Xenophobia in Hungary (2007), %

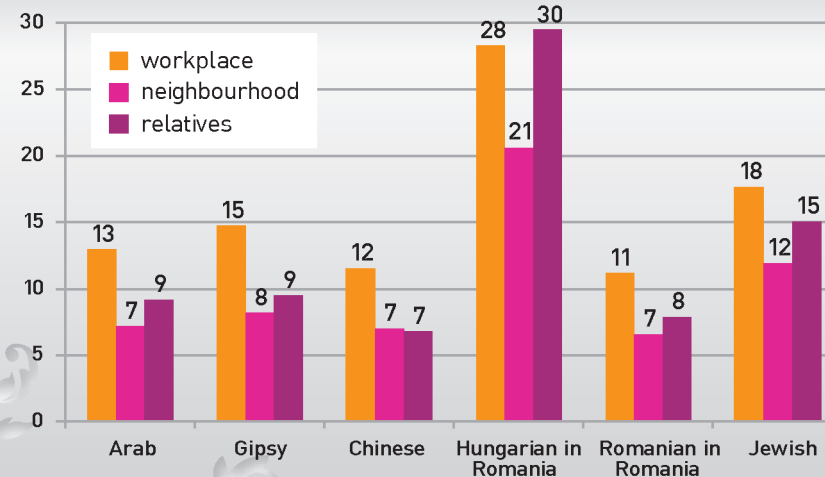


Source: TÁRKI

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- Open anti-Gipsy sentiment decreased between 1994-2002
- In the meantime, attitudes towards foreign ethnic groups continue to remain negative
- We reject immigrants and do not support foreigners being employed in Hungary
- We consider our own existential security very important

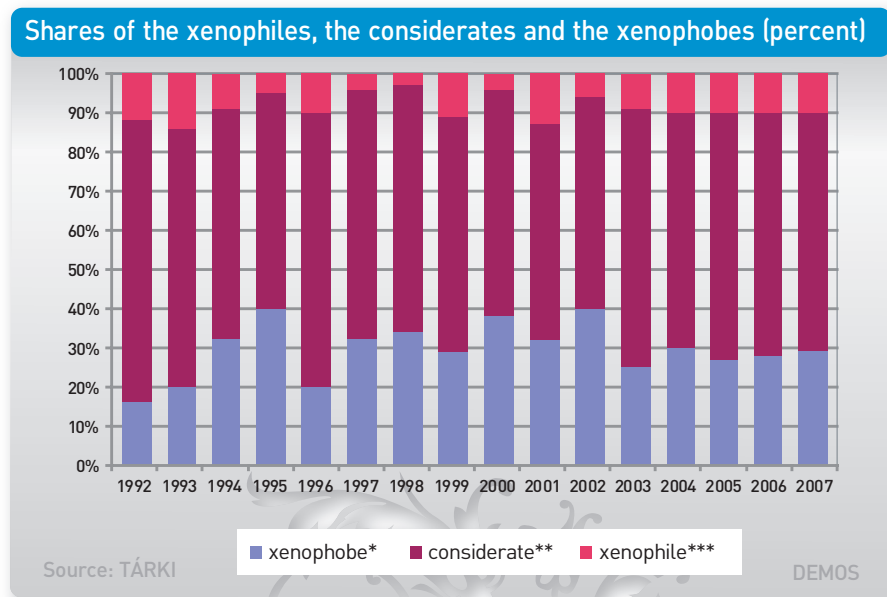
The percentage of those who support contact with the groups listed (2002)



Source: Enyedi-Fábián-Sik (2004), Gallup, TÁRKI, Institute for Psychology of the Hungarian Academy of Sciences

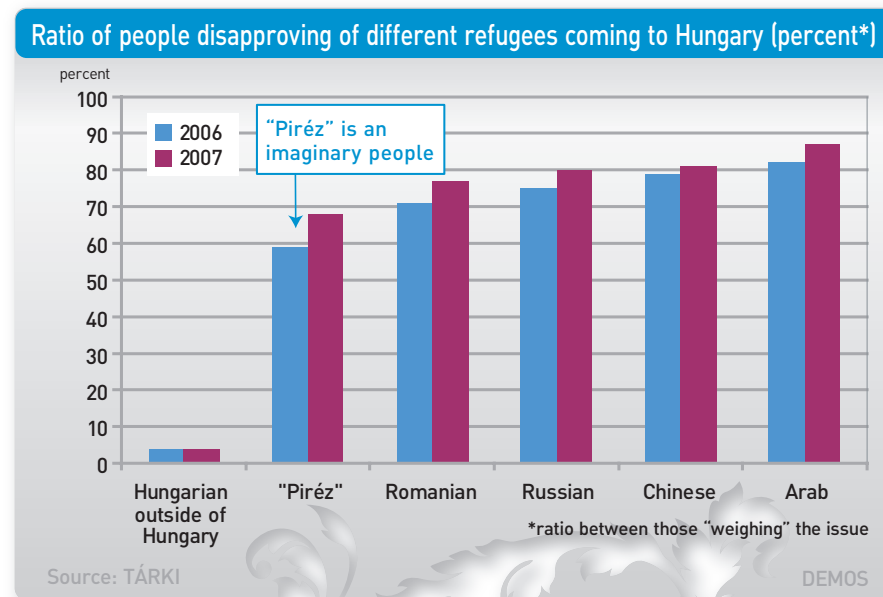
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# The level of xenophobia is high



\* those who believe that Hungary should not receive even one person applying for refuge  
 \*\* those who would weigh the issue of providing or rejecting refuge  
 \*\*\* those who believe that Hungary should accept all who seek refuge

- According to a February 2007 survey, 29 percent of Hungarians are anti-foreigner while 10 are pro-foreigner
- The majority (61%) would weigh the issue of providing or rejecting refuge
- Over the past 15 years the ratios have not changed



- The majority of those “weighing” the issue would be reluctant to receive Romanians, Russians, Chinese and more so Arabs
- The ratio of those rejecting has increased for all ethnic groups since 2006
- Hungarians living in other countries would be welcome by almost all
- Anti-foreigner sentiment exists even against the imaginary “Piréz” people



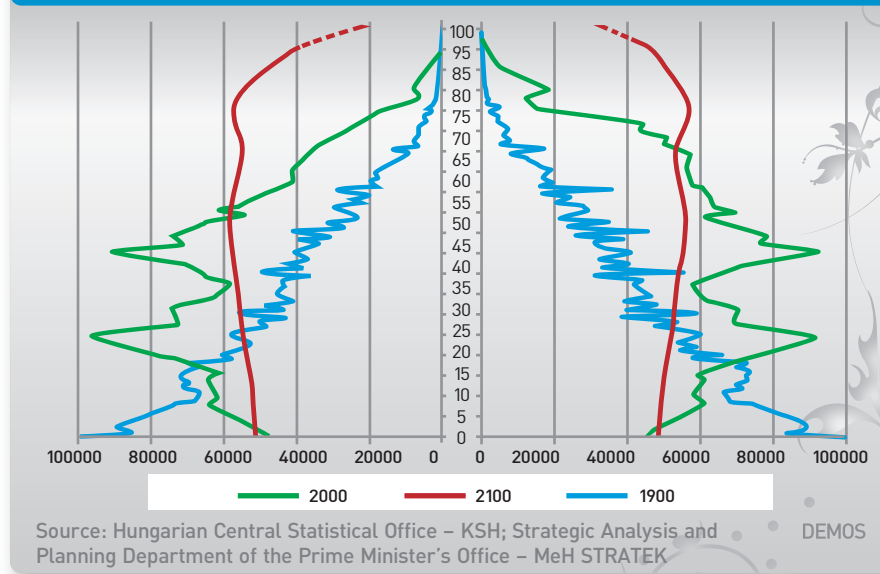
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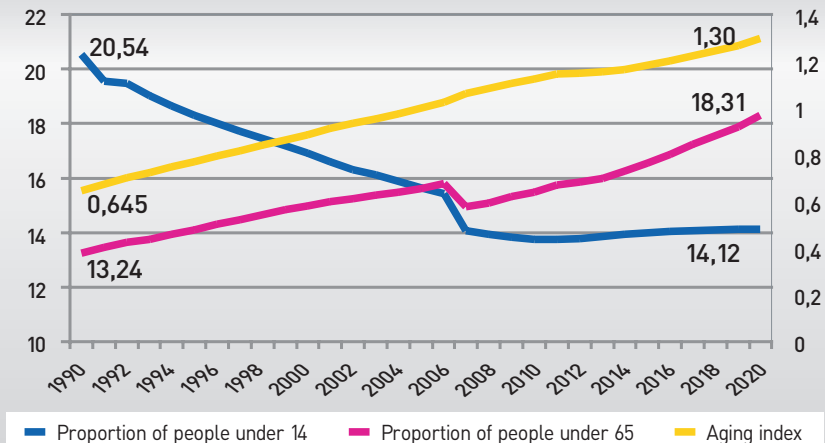
# Hungary's demographic processes are unfavourable...

- According to realistic expectations, the country's population will decline to 9.6 million by 2030 if the current migration trends remain unchanged
- The "over 65" population of Hungary was 15 percent in 2007, a ratio that is higher than the "under 14" population since 2006
- The aging index is gradually increasing and has grown even sharper since 1990

The age tree in Hungary (1900, 2000, 2100)



Change of proportions in the number of people under 14 and over 65 and in the aging index

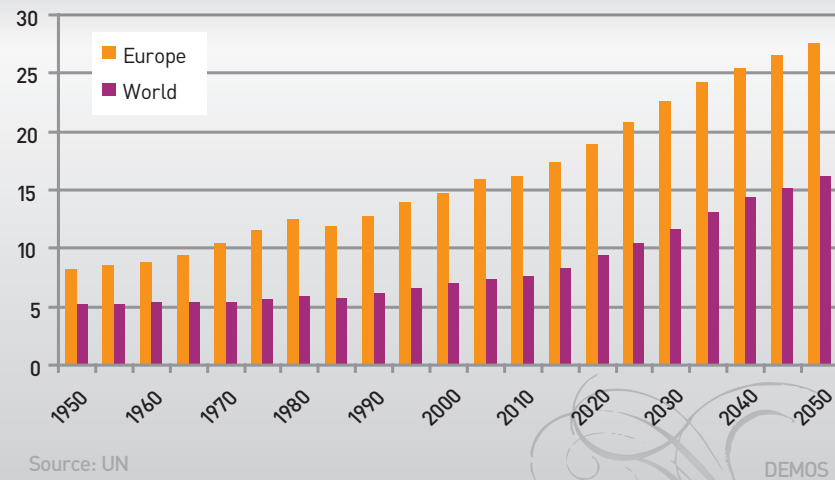


The aging index shows the number of "over 65" citizens per 100 "0-14 year-olds"

- Experts do not expect any improvement in the age tree in the long run
- The age tree is expected to be fully transformed by 2100

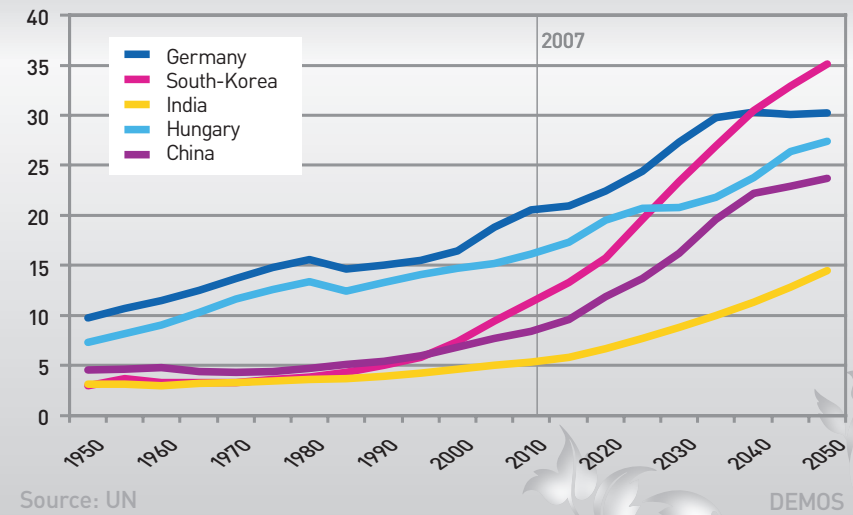
## ...but are not significantly different from the population trends in Europe

Share of people above 65 years of age in the world and in Europe (1950-2050)



- A UN estimate says that by 2050 the ratio of the “over 65” population of Europe will be 27.6 percent
- In 2005 16 percent of the population of Hungary and the European Union is “65 and over”

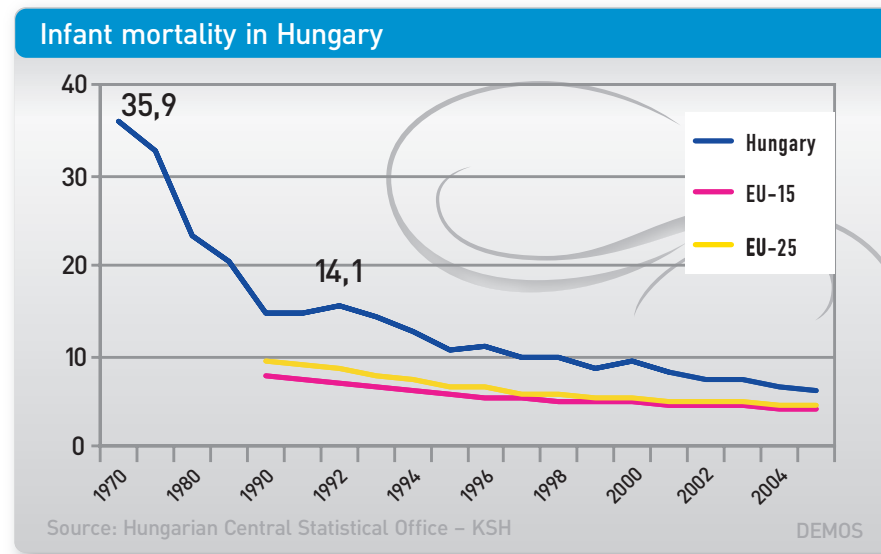
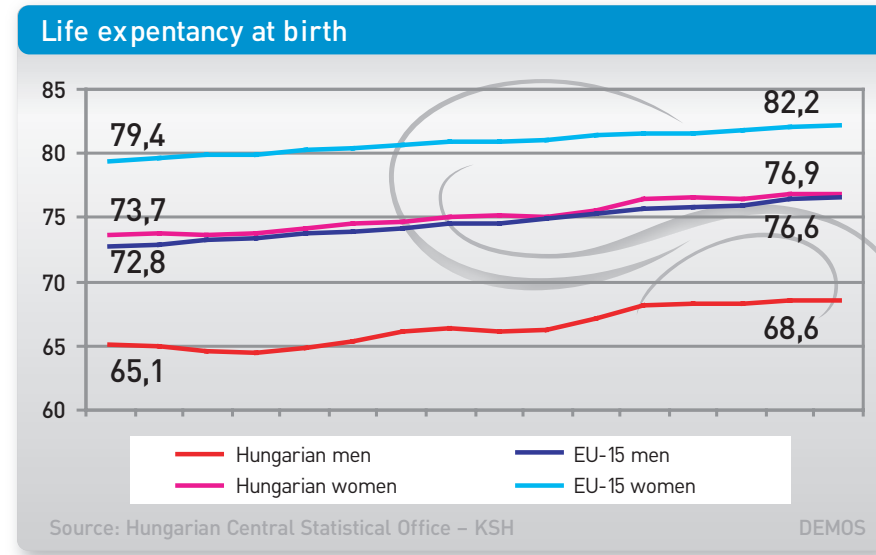
Proportion of people over 65 (1950-2050)



- Hungary's aging trends correspond with international trends
- Aging is a big problem in Asia (both in developed South Korea and in China) as well with close to 5 times the number of elderly people expected in 40 years

# Life expectancy continues to increase

- The change of the political regime did not stop the increase in life expectancy
- The “advantage” of women has dropped from 8.6 to 8.3 years
- Hungarian men live 8 years less than their EU counterparts
- Hungarian women live 5.3 years less than the EU average
- In 2005 men lived 3 years longer on average than in 1990

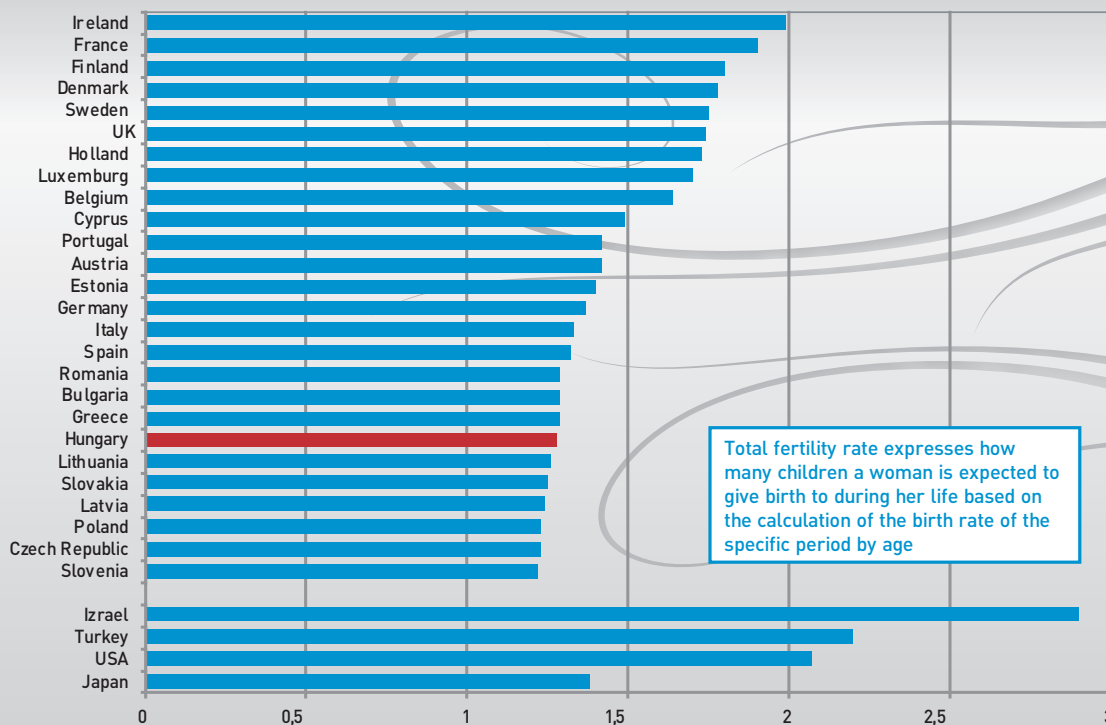


- Of a thousand babies, many more died in 1970 than in 2005
- After transition, the process of improvement slowed somewhat, but nevertheless: since 1990 infant mortality has more than halved
- In 2005, 6.2 live births occurred for every 1000 persons
- The EU25 average was 4.5 in 2005 and a mere decimals lower in the EU15

## Fertility shows signs of improvement...

- Ireland, France and Scandinavia take the lead in terms of fertility rates
- Hungary's average is better than that of many of the other countries in the region
- Hungary reached the low point in terms of birth rates in 2003-2004 and achieved a slight improvement since: in 2006, 100 women gave birth to 135 children on average

Total fertility rate (2004)

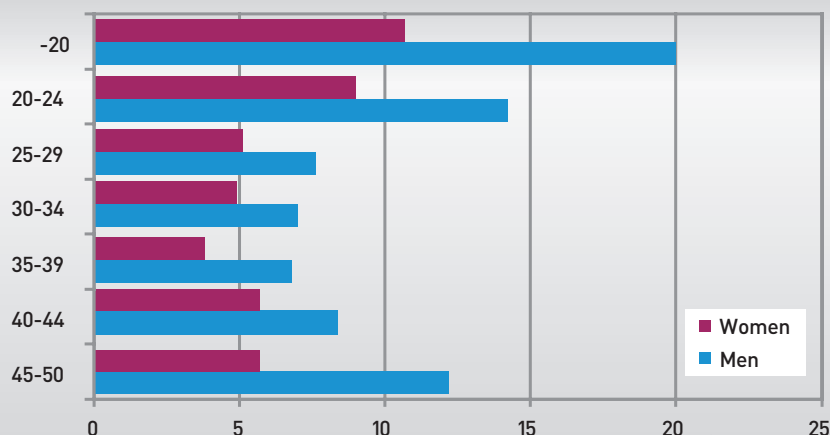


Source: Hungarian Central Statistical Office – KSH

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## ...but still: very few children are born

People not planning to have children per age group and sex (2001)

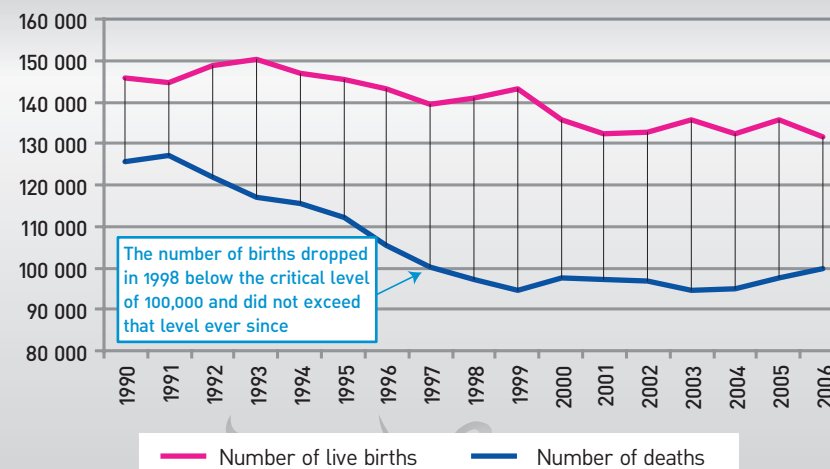


Source: Hungarian Central Statistical Office – KSH

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- In 2001, close to 10 percent of women under 25, and 15-20 percent of men wished to live their lives without any children
- Over 8 years the number of couples not planning to have any children rose by 3 to 4 times

Trends in number of live births and deaths

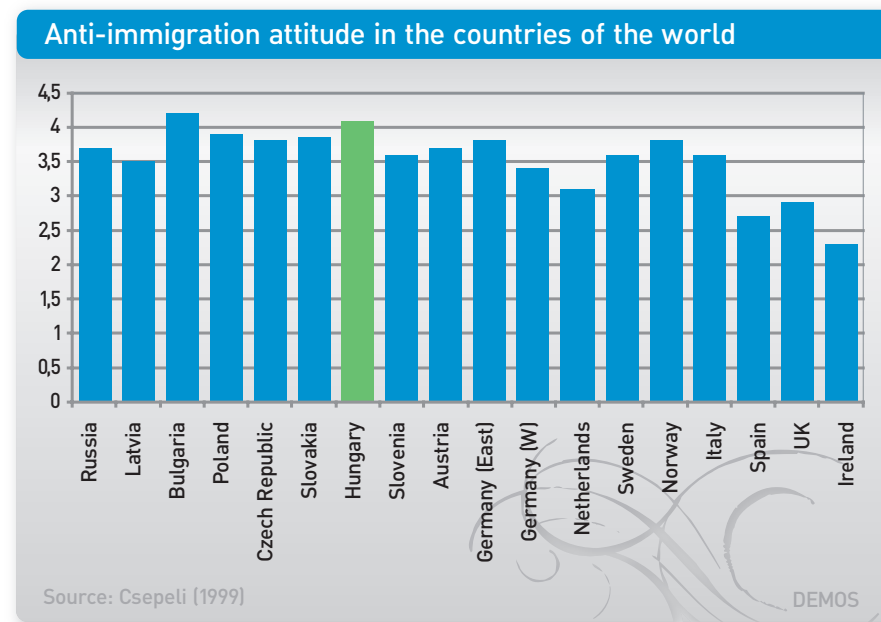
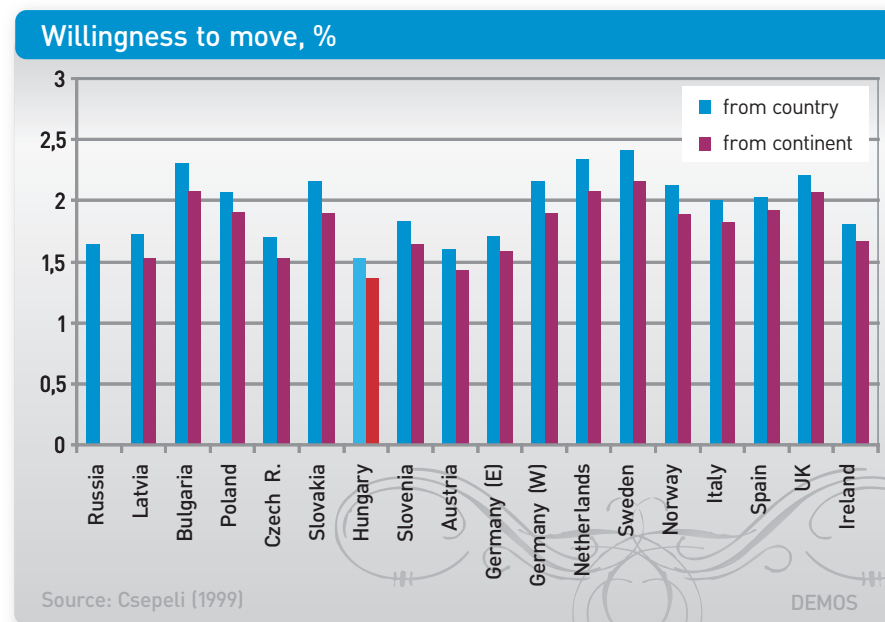


Source: Eurostat

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- The population of Hungary has steadily declined since 1981 with the number of deaths being higher than the number of births
- The main reason for that is the birth rate that is low even in international comparison
- Since the turn of the millennium the number of births has been around 95,000 to 97,000 per year with a slight increase since 2004
- The rate of population decline has accelerated over the past decade

# Hungarians are unwilling to migrate and do not welcome immigrants

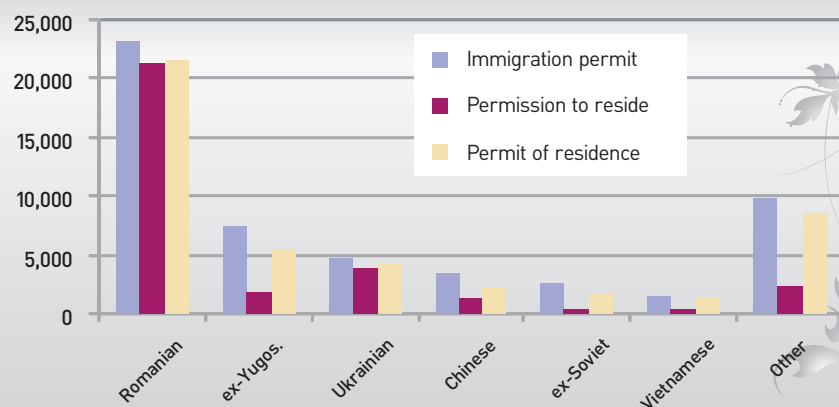


- Willingness to be mobile is low not just within the country
- In terms of international and intercontinental migration, Hungarians are one of the least mobile nations in international comparison
- Anti-immigrant feeling is high but not exceptional in Hungary
- Countries with high internal mobility tend to be less hostile to immigrants (e.g. Ireland)

## Few foreigners seek refuge in Hungary; most of the immigrants are ethnic Hungarians from the neighbouring countries

- A few thousand refugees arrive in Hungary each year
- More refugees arrive in Hungary from outside than from inside Europe
- The majority of refugees arrive from Romania and the former Yugoslavia

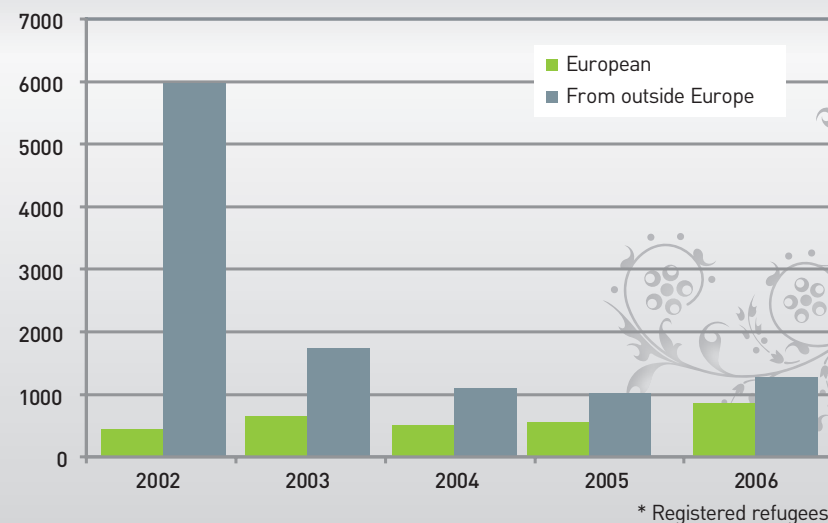
People having immigration permit or permission to reside - main nationalities (31 December 2006)



Sources: Kapitány-Spéder (2004);  
Hungarian Central Statistical Office – KSH

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Trends in the number of refugees coming to Hungary\*



Source: Office of Immigration and Nationality – BM-BÁH

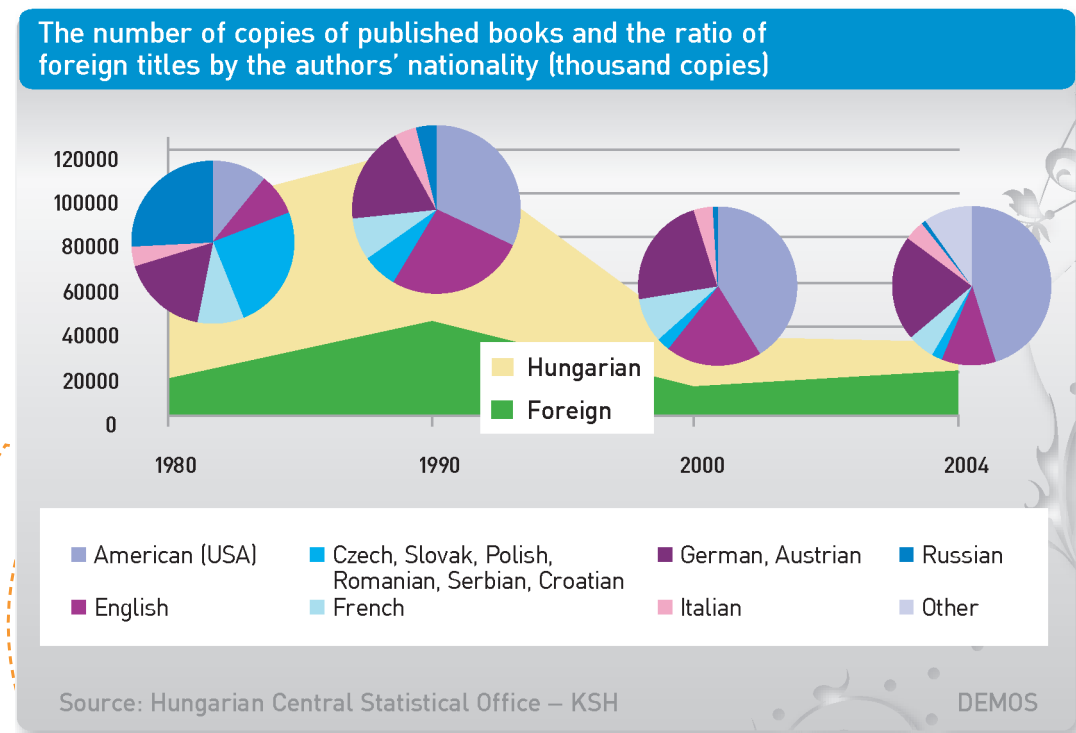
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- Few people seek refugee status in Hungary
- The number of illegal border crossings is also low



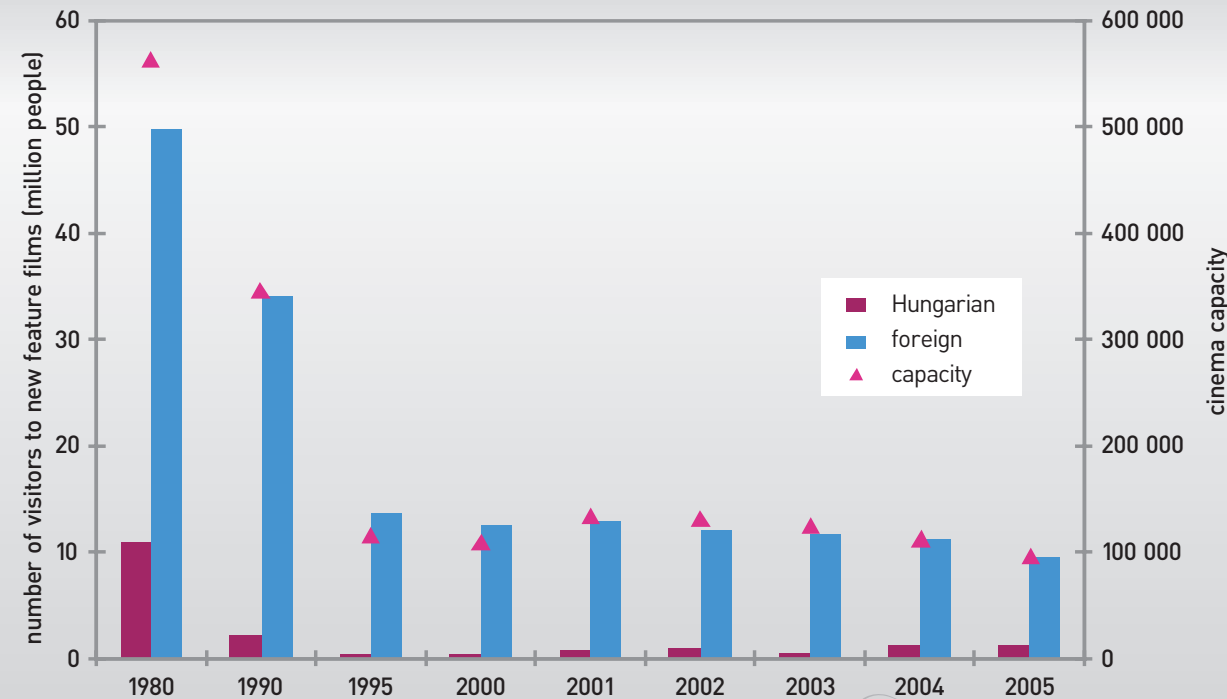
# We do not seal ourselves off from cultural globalisation

- In 1990 general state funding of book publishing was stopped
- Ever since the number of copies published has drastically fallen but there is much more diversity
- The number of copies published per year has been around 35,000 since 2000
- The ratio of Hungarian authors published has declined and American writers are getting published more among foreign authors
- Books by foreign authors are becoming more popular



## We consume a growing ratio of Western European and American cultural products

Proportion of visitors to new feature films and cinema capacities (1980-2005)



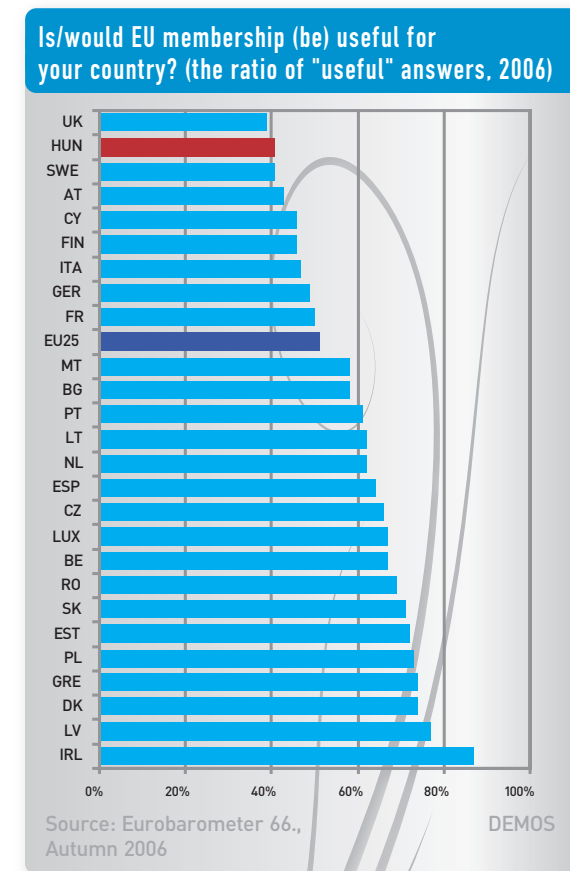
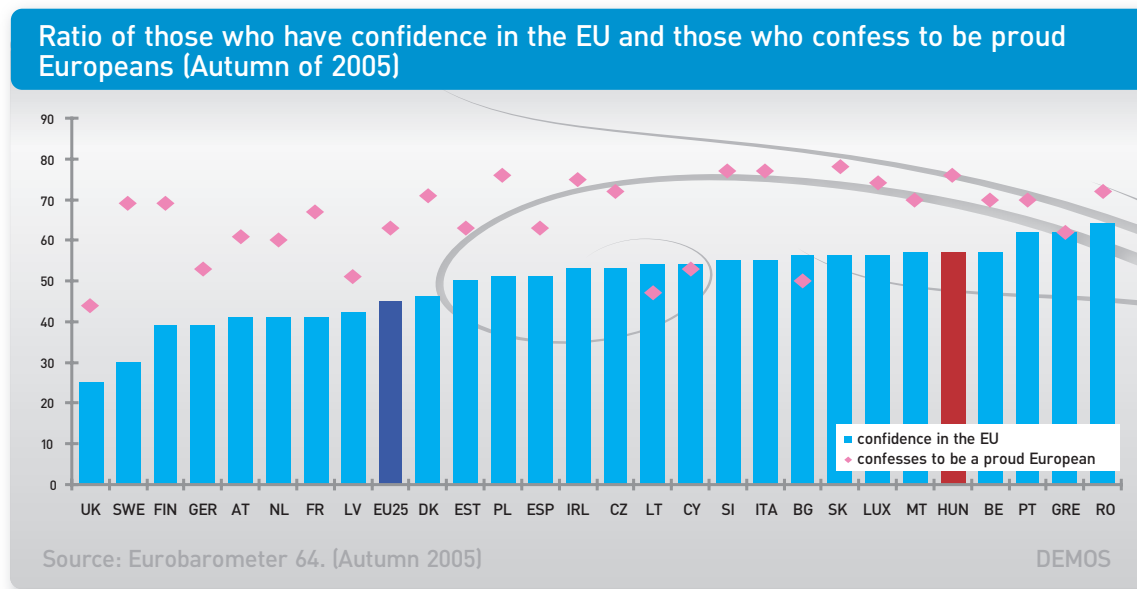
Source: Hungarian Central Statistical Office – KSH

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- In 2005 close to half (47%) of the new films were American, almost one-tenth Hungarian (8%) and French (10%), and 6% British
- In 2005 70% of cinema goers bought tickets for American productions while only one-tenth (12%) saw Hungarian films

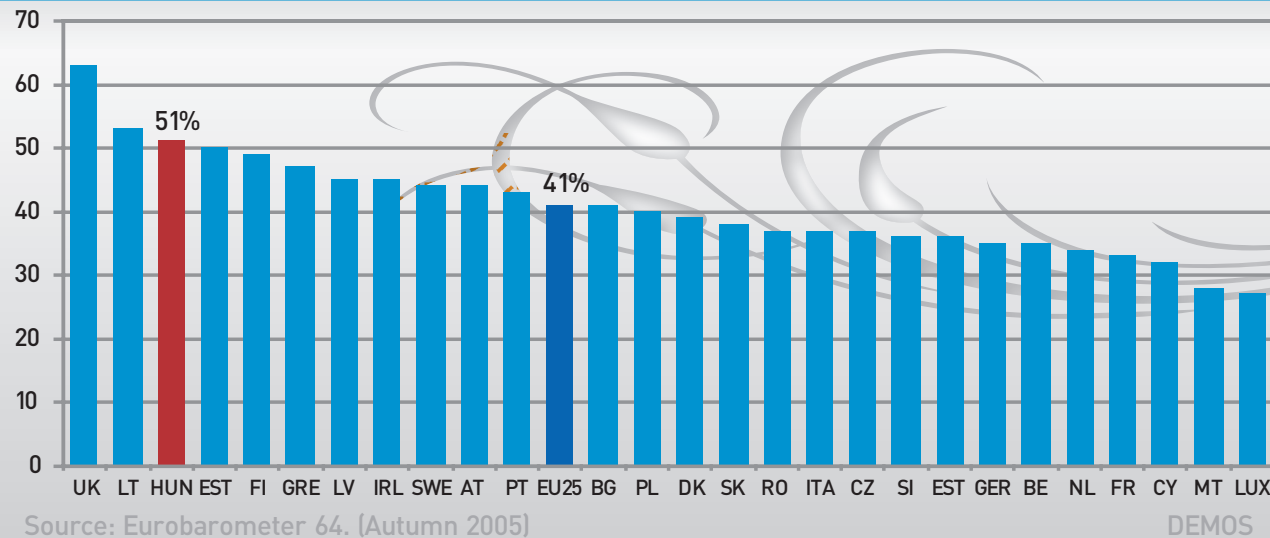
## We consider our membership moderately useful but have strong confidence in the European Union

- Although 40% of Hungarians believe EU membership is useful, the majority of the population does not experience its benefits
- Interestingly enough, even though the majority of Hungarians has not experienced the benefit of Hungary's membership, there is strong confidence in the European Union (57%)



## We are increasingly proud of being Europeans but still have a strong national identity

The ratio of those identifying themselves only as members of their own nation  
(Autumn 2005)



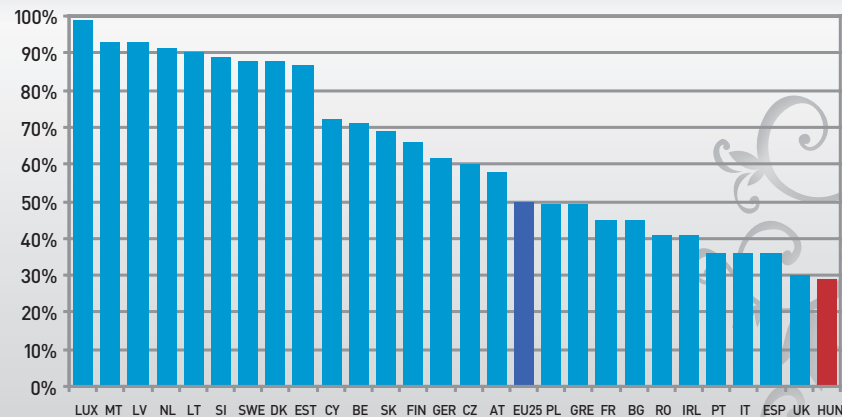
- Hungary's accession to the European Union was a step towards joining the processes of globalisation
- It is worth noting that compared to one-third (32%) in the Autumn of 2004, a year later 44% of survey participants considered themselves both Hungarians and Europeans

- In the EU25 countries, 41 percent of the respondents claimed to be "exclusively" a citizen of their national state
- Prior to the country's EU membership such opinion was close to two-thirds (64%) among Hungarians, which then dropped to 51%

## Few Hungarians speak foreign languages but a lot more do than a decade ago

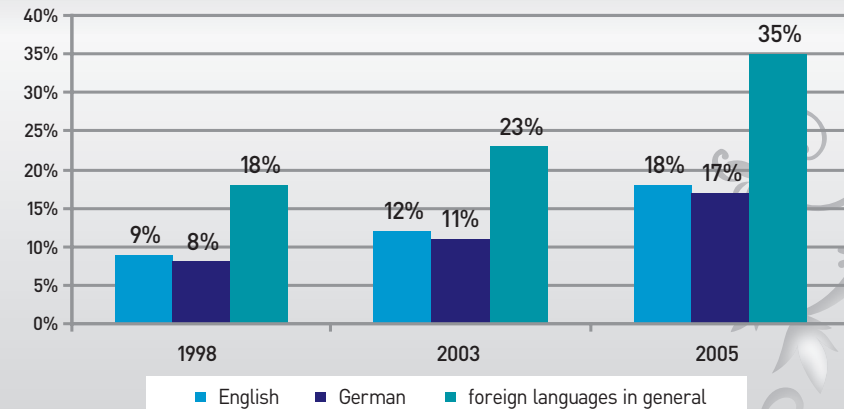
- In addition to English and German, most Hungarians speak Russian (14%), French (5%) and Italian (4%)

Do you speak another language than your native language, at conversational level? (Summer 2005)



Source: Eurobarometer 237. (Summer 2005)

Share of people speaking foreign languages and English- and German-speaking people



Source: TÁRKI

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- Of all the EU members, Hungary has the lowest ratio of those speaking at least one foreign language at conversational level

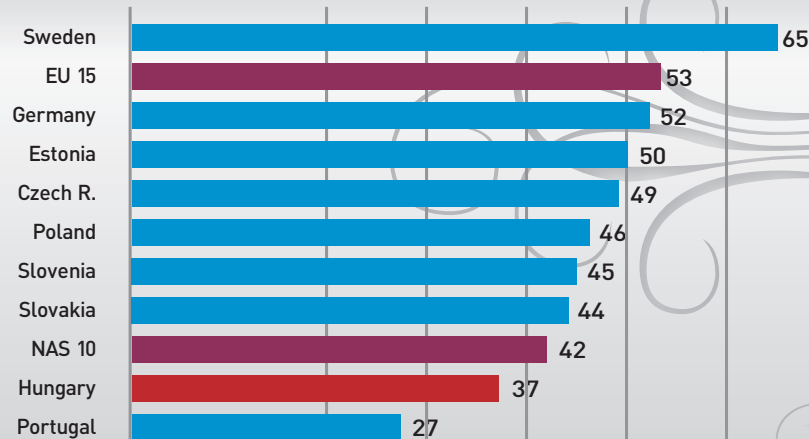
# A new risk: information illiteracy and the digital divide

- Hungarian digital literacy is at a very low level; Hungary is ranked among the backmarkers
- Although the level of digital inequality has decreased over the past 4 years, real improvement can only be achieved with long-term programmes

Digital literacy involves four skills:

- Communication with others (using e-mail and other online technology)
- Obtaining (or downloading) software and installing it on the computer
- Running queries on sources found on the Internet
- Locating necessary information using search engines

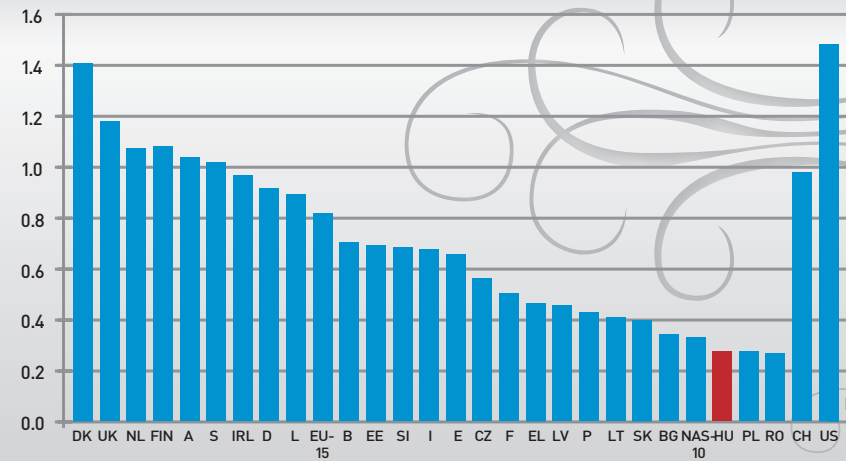
Values of the Digital Divide Index in the inspected countries (2002-2003)



Sources: ITHAKA, SIBIS

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Digital literacy index in the EU, Romania, Bulgaria, Switzerland and the U.S. (2003)



Sources: ITHAKA, SIBIS

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The Digital Divide Index (DDIX) examines access to and the use of information tools

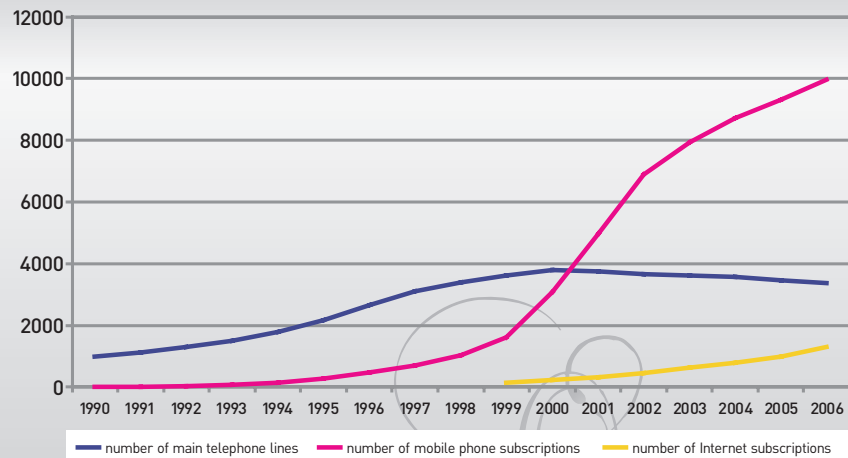
The value of the index shows what the proportion of access to the information tool is in a disadvantaged group and how widespread its use is compared to the ratio in the entire population.

The lower the index value is, therefore, the larger the digital divide.

- Even though the digital divide has been closing in Hungary, there are still bigger differences than in the old member states of the European Union
- The digital divide is especially deep in terms of age and education concerning computer and Internet use

## Although mobile telephony is expanding at a fast rate, only a few households have computers and Internet connections

Number of telecommunication subscriptions (thousand) (1990-2006)

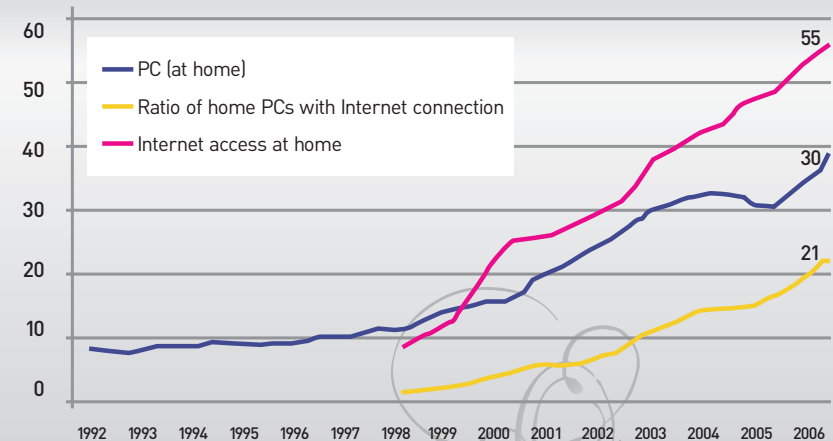


Source: Hungarian Central Statistical Office - KSH

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- Although the Hungarian landline and mobile telephony markets are saturated, we are only at the beginning of the PC and Internet era
- Telecommunications unit prices began to decline two years ago but are still among the highest in Europe

Trends in home PC and Internet penetration in Hungary (1992-1996) (%)



Source: ITTK, ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

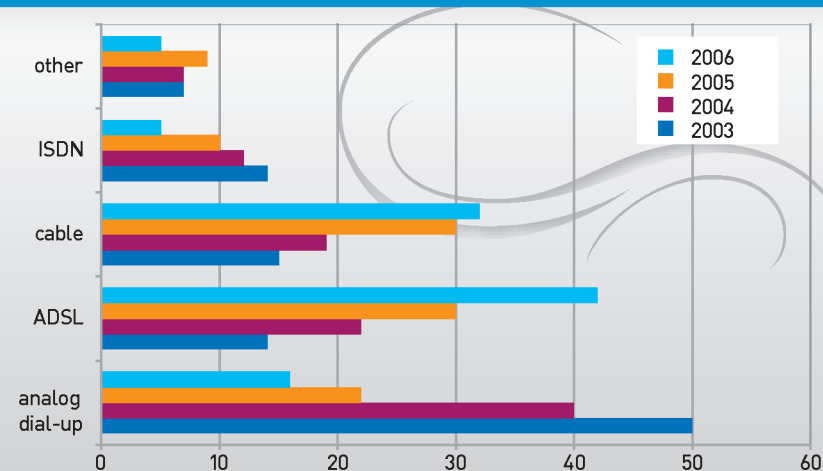
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- PC and Internet penetration in Hungarian homes is still low
- The earlier dynamic expansion seems to have slowed down since 2003
- The spread of home computer use is hindered by financial and cultural obstacles

# Advanced technologies are on the rise

- Newer and more advanced technologies (mobile telephony and broadband Internet) are spreading faster in Hungary than the products of traditional but underdeveloped sectors (landline telephony, narrow band)

Internet connection technology (among Internet users, percent) (2003-2005)

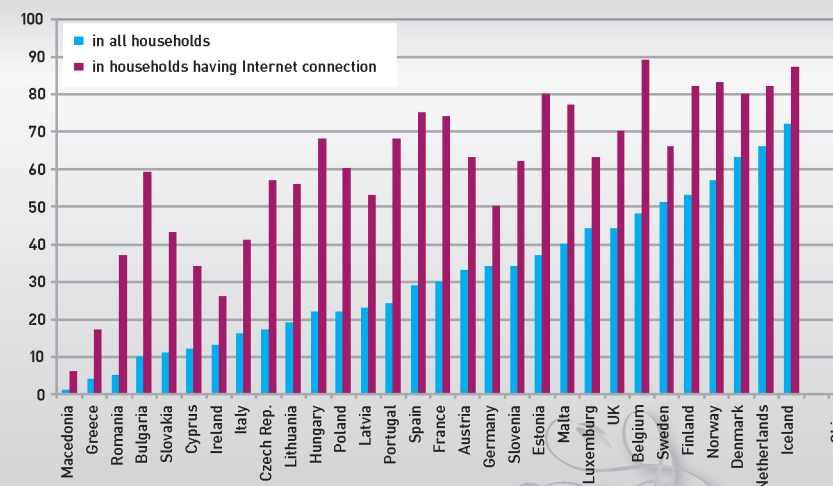


Source: ITTK, ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

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- Similar to China where the ratio of households with broadband Internet connection is low in international comparison, the ratio of broadband connections in households with Internet access is high

Ratio of people having broadband Internet connection at home (2006)



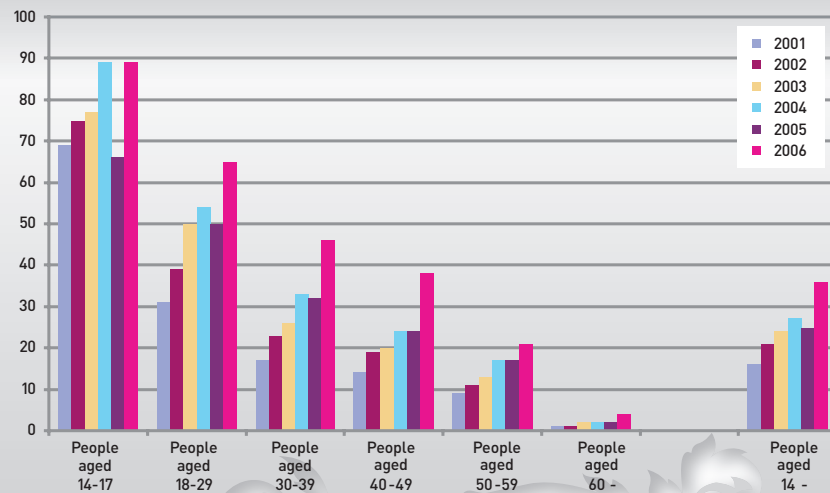
Sources: Eurostat; China Internet Network Information Center - CIRC

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# Hungary is slow to catch up on e-government services

Internet users by age group (2001-2006)



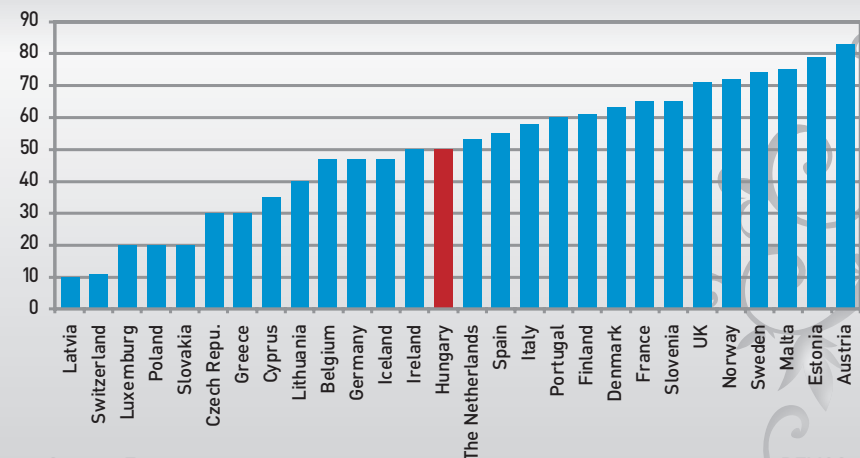
Source: Eurostat

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The 20 most important e-government services:  
tax return, job search, social security, personal documents,  
vehicle registration, building permit requests, police, public  
libraries, birth and marriage certificates, application for  
college, report of a move, health services, employer social  
contributions, community tax, registration of new compa-  
nies, statistical data provisioning, consumer protection,  
environmental permits, public procurements

- Hungary is lagging behind Western Europe in terms of the electronic administration of public services
- Compared to the new EU members and candidates, however, Hungary is in the mid-range in that regard
- The developments of the recent past (electronic filing of tax returns and the introduction of the e-government portal “Ügyfélkapu” have brought about real changes)

Availability of the 20 basic e-government services in individual European countries (2006) (%)



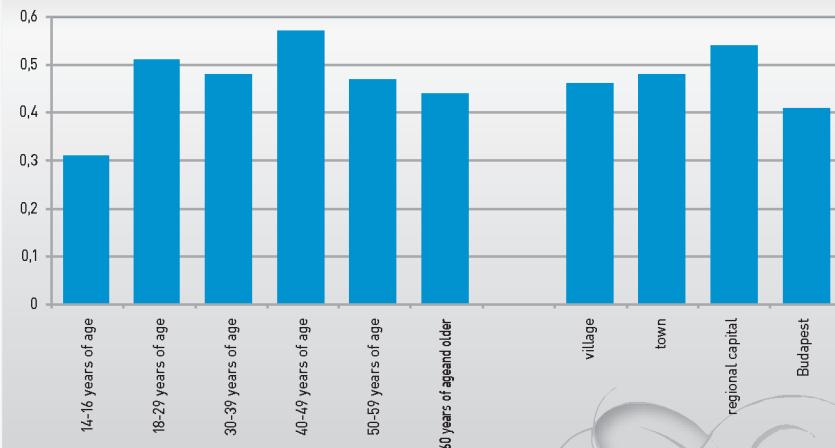
Source: Eurostat

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# E-government is slowly developing in Hungary

- Most people use the e-government system to look for information and not to actually have their case processed

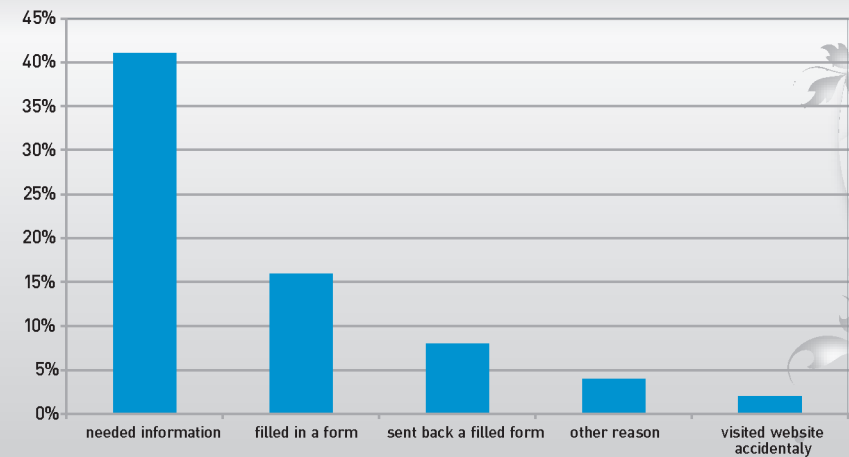
Ratio of people who contacted public institutions online according to age and residence (2006) (%)



Source: ITTK, ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

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For those who have visited a public institution website in the last 3 months: What was the reason of their visit? (2006) (%)



Source: ITTK, ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

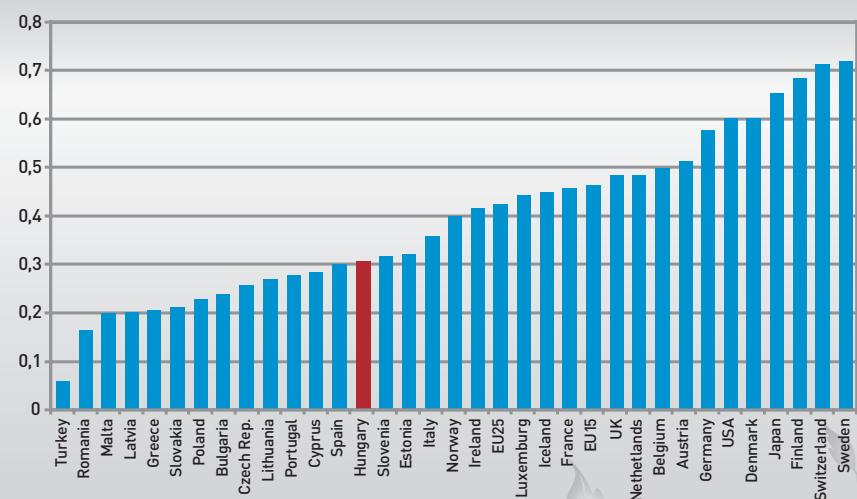
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- Public administration websites are mostly used by 40-49 year-old residents of county capitals

## Hungary is ranked in the middle section of Europe in terms of innovation

- The summary innovation index reveals that Hungary places 15<sup>th</sup> among the EU countries and has advanced four places on the list since 2004
- The main cause of our disadvantage is that only few innovative products and technology standards exist
- Another difficulty is that the channels facilitating economic utilisation of innovative products have not yet been developed

Aggregate innovation index (2005)

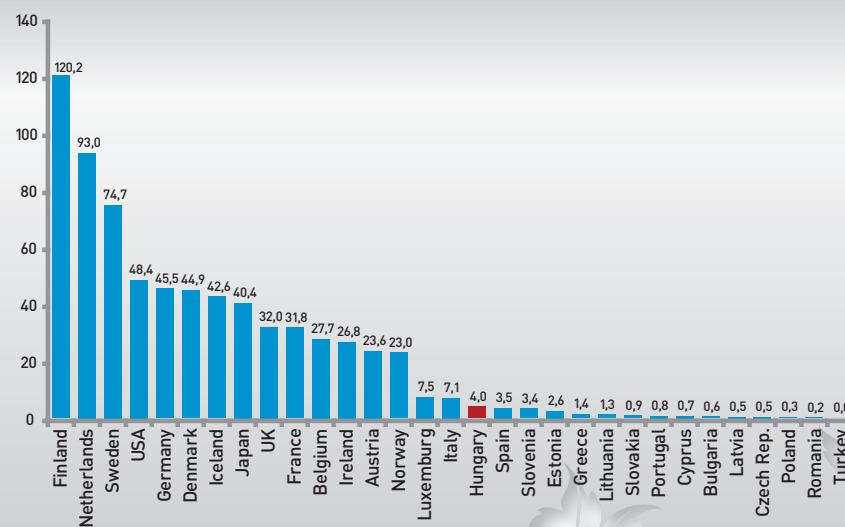


Source: TrendChart Innovation Policy in Europe  
Note: only estimates for Turkey, USA and Japan

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- The number of technology standards is very low in the new members states of the EU including Hungary
- Even though we are way behind our EU competitors, only the Czech Republic had a better index in 2003 in the region

Number of technology standards by country (2003)

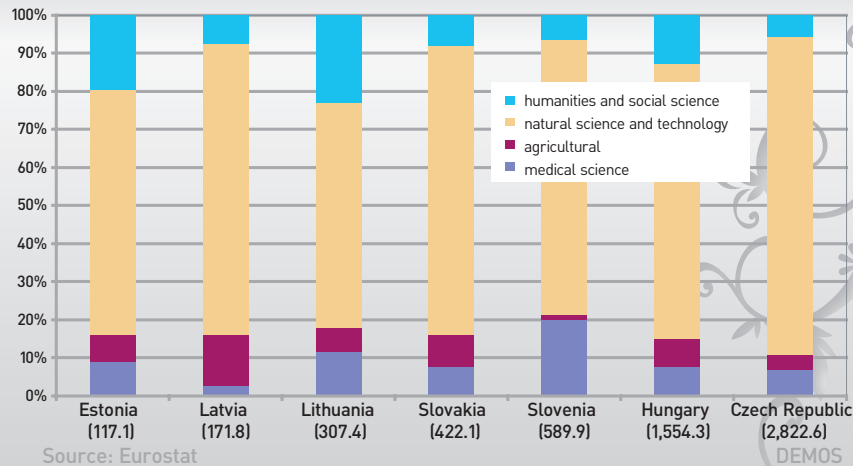


Source: TrendChart Innovation Policy in Europe

DEMOS

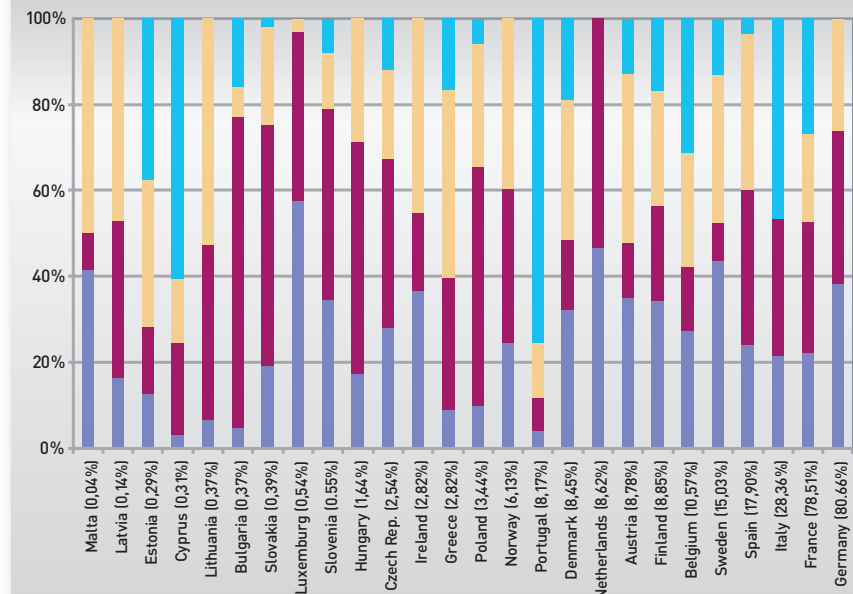
## The number of patents is low; business-based innovation is not intensive either

Proportion of R+D expenditure per science range on purchasing-power parity (2005)



- Even though state-funded R&D is close to the EU average...
- ...business spending on R&D is only 28% of that, which makes it one of the main causes of our disadvantage
- The innovation contribution system launched in 2004 is expected to change that situation

Proportion of R+D expenditure as compared to the EU27 average (2005)



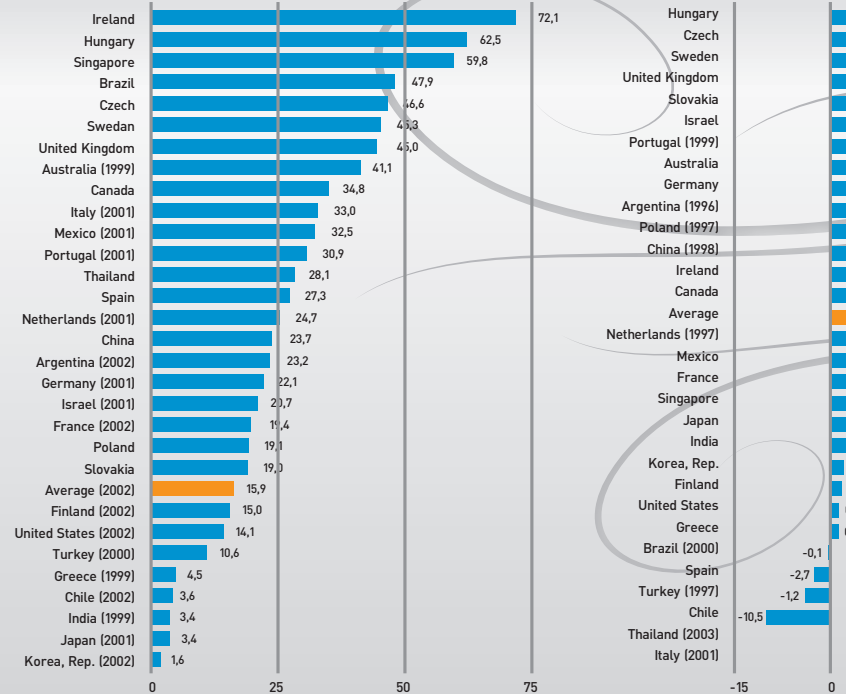
In order to complement the financial resources of research and development and technological innovation, companies in Hungary have had to pay an innovation contribution since 2004 as specified in Act XC of 2003 on the Research and Technology Innovation Fund

# Most of the spending on business research is generated by foreign-owned multinational corporations

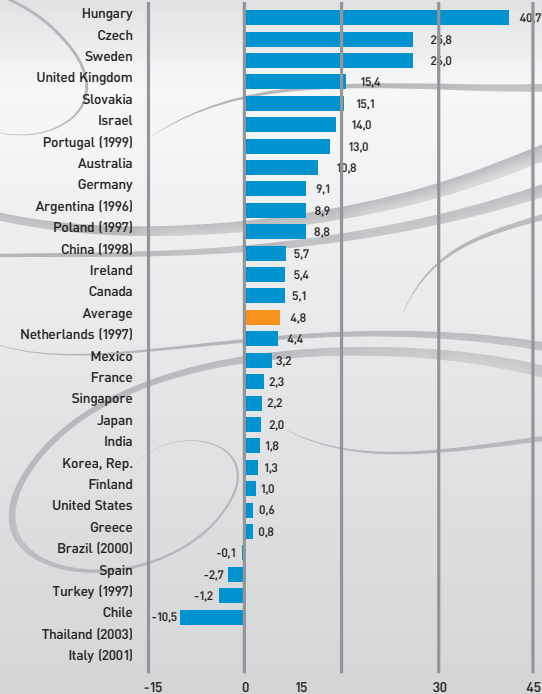
- Within business R&D spending, Hungary has the highest ratio of participation by foreign-owned companies
- Compared to 1995, Hungary has changed the most in this regard and surpassed the Czech Republic and Slovakia in the region but even the results produced by the more advanced economies of Sweden and Great Britain

Trends in R&D spending by foreign affiliates, selected economies (1995-2003), %

Share of foreign affiliates in business R&D, selected countries, 2003 or latest year available



Change over 1995



Source: UNCTAD's calculations, based on national sources and data provided from the OECD AFA database

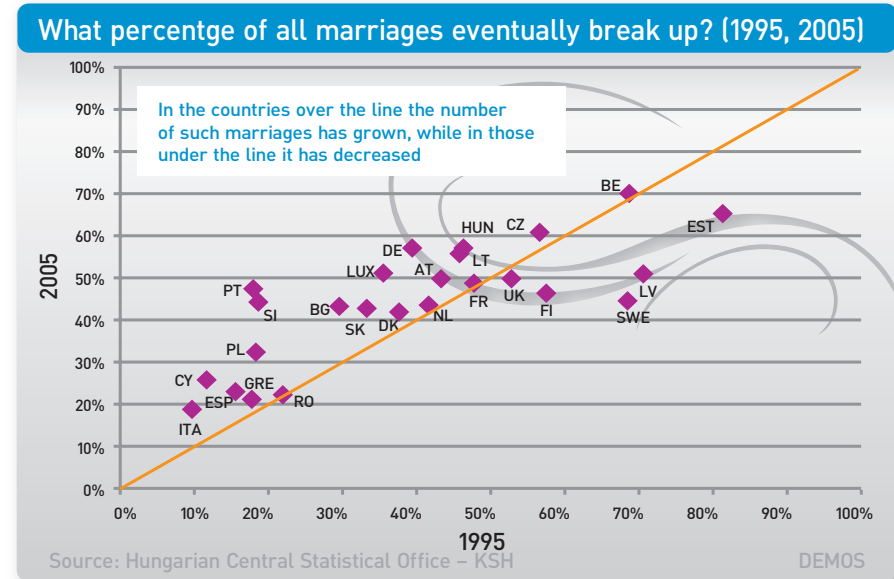
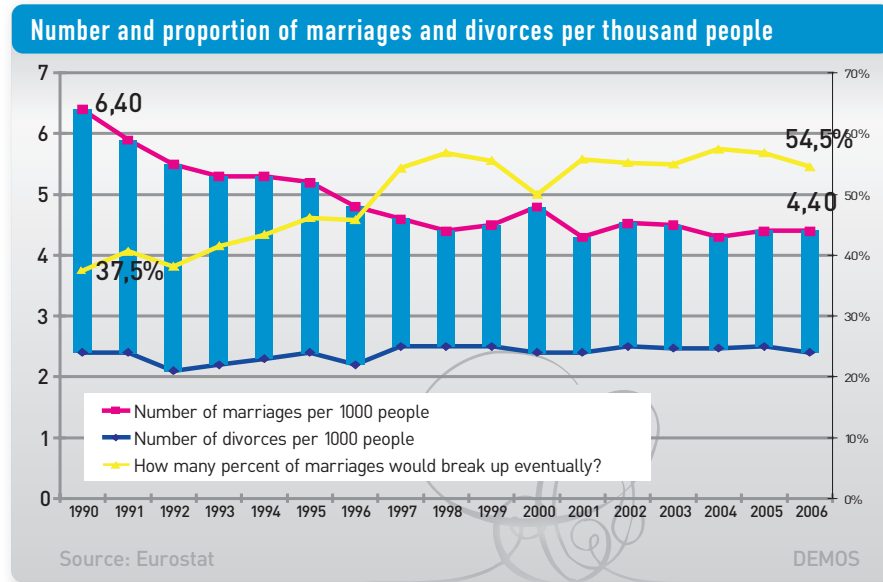
In Argentina, Chile, Israel, the Republic of Korea and Mexico, the R&D expenditure of United States/owned affiliates has been used as a proxy for the R&D spending of all foreign affiliates. In India, the share of foreign affiliates in total R&D spending has been used as a proxy for their share in business R&D spending

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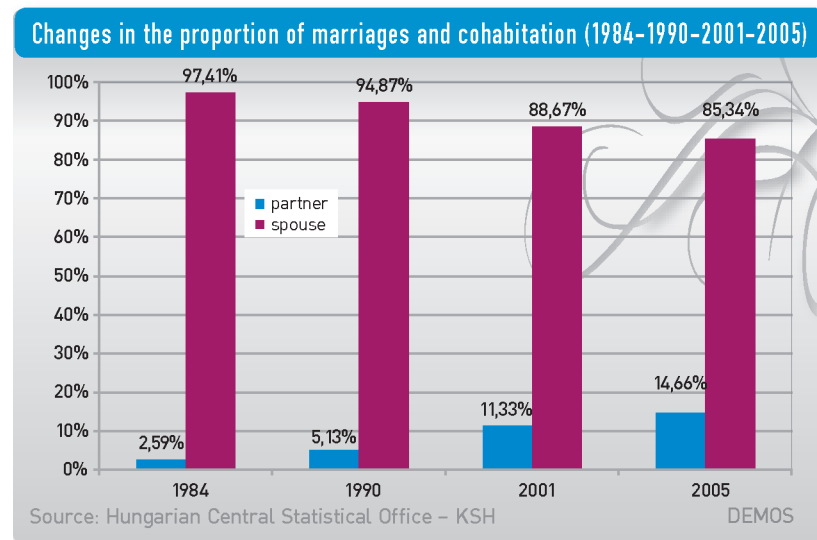
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# The traditional institution of the family is undergoing transformation



- The number of divorces has stabilised at a high level in recent years
- The number of weddings concluded has decreased by almost a third since 1990
- The proportion of marriages ending in divorce is well above the average of the EU27
- An increase in the divorce rate was recorded throughout Europe between 1995 and 2005

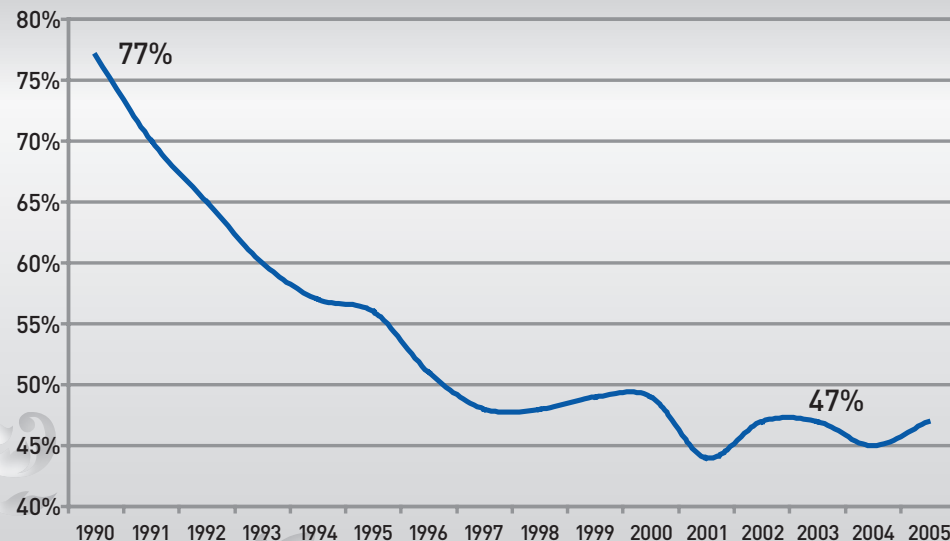


- Although marriage still dominates as a form of partnership-based cohabitation, in the period between 1984 and 2005 the proportion of common-law marriages grow fivefold

## Young people increasingly choose long-term partnerships instead of marriage

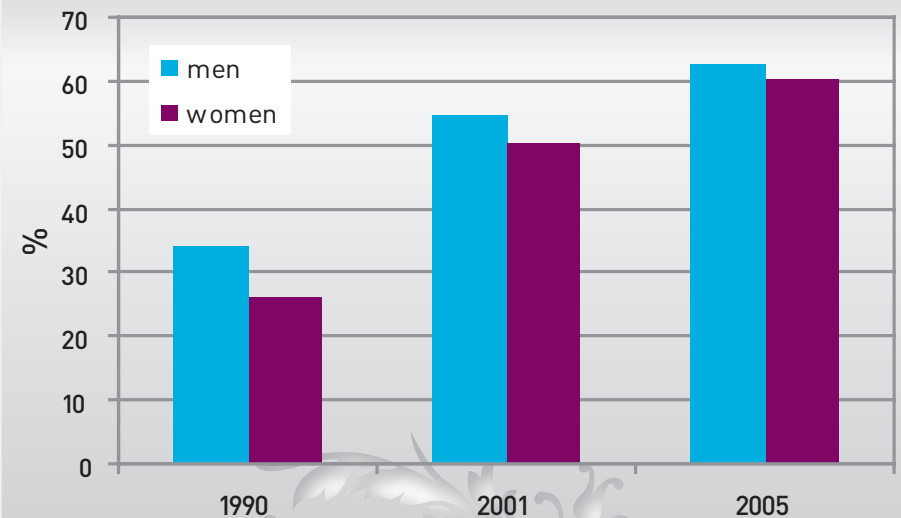
- It is increasingly accepted by young women that their first partnership is a common-law marriage
- Before the political changes and in the early 1990s, the relative majority of those living in common-law marriage were divorced, but by the turn of the millennium, single men and women formed an absolute majority

Full first marriage rate for women\* (1990-2005)



Source: Hungarian Central Statistical Office – KSH  
\*See also: Notes, sources on page 128

Share of bachelors in life companionships (1990, 2001, 2005)



Source: Hungarian Central Statistical Office – KSH

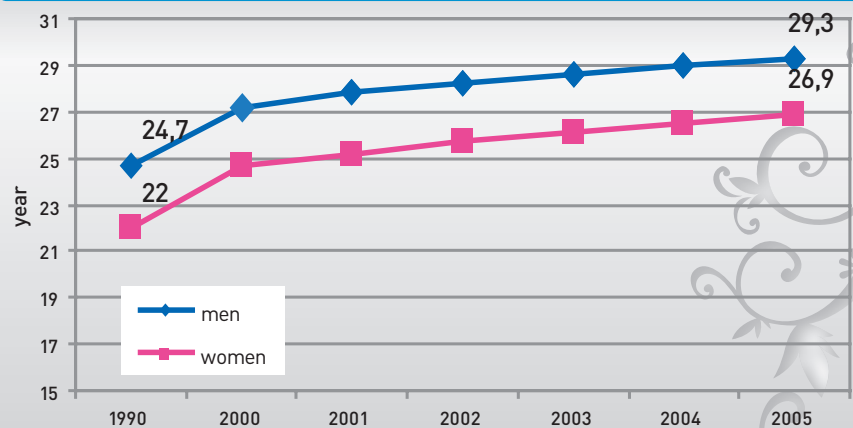
DEMOS

- The proportion of women concluding a first marriage seems to be leveling off at a low level (45-47%)



# The age of marrying and having children is being pushed back

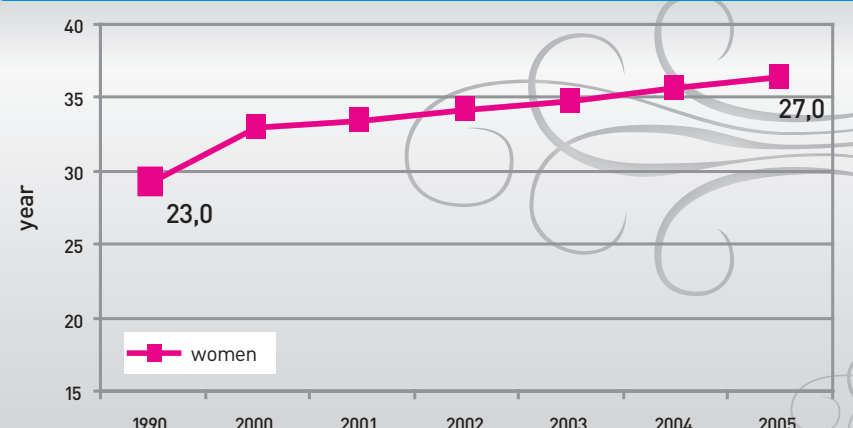
Average age at the time of the first marriage (1990-2005)



Source: Hungarian Central Statistical Office – KSH

DEMOS

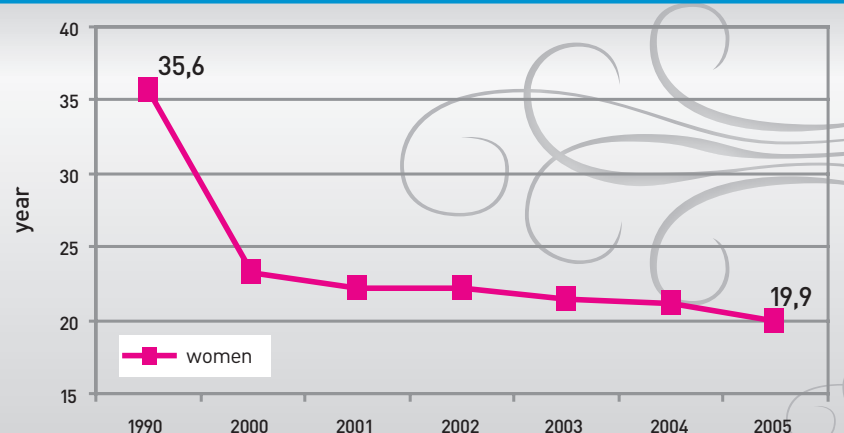
Average age of mothers when the first child was born (1990-2005)



Source: Hungarian Central Statistical Office – KSH

DEMOS

Number of abortions per 1000 women of 15-49 years of age (1990-2005)

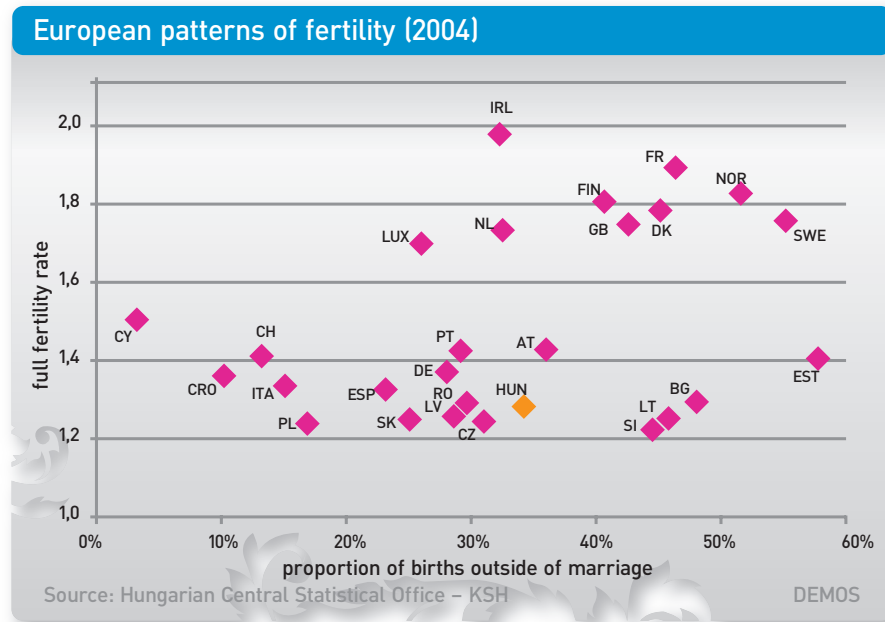


Source: Hungarian Central Statistical Office – KSH

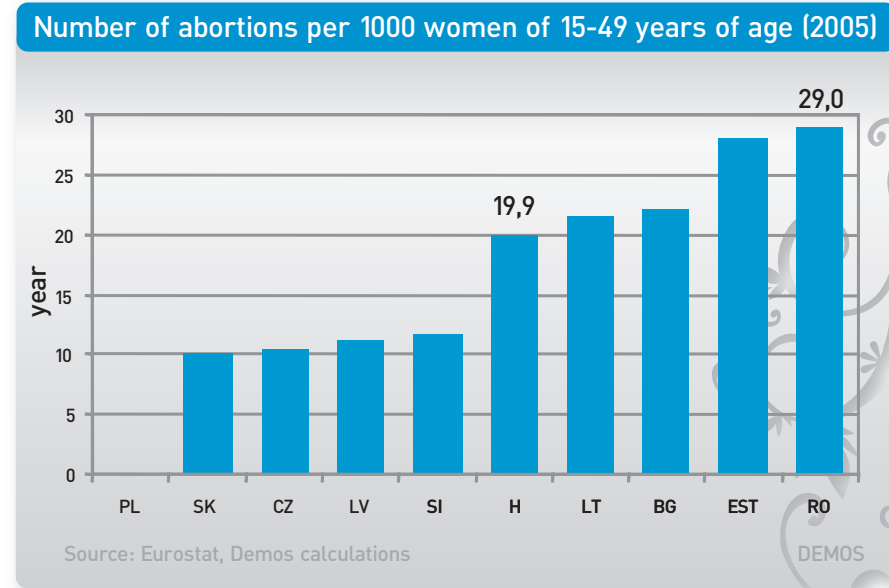
DEMOS

- The proportion of women concluding a first marriage seems to be leveling off at a low level (45-47%)
- On average, Hungarian women give birth to their first child at age 27, which is four years older than in 1990
- The number of abortions has dropped significantly, by 44 percent since 1990

## Hungary is characterised by a low fertility rate and a high proportion of births out of wedlock

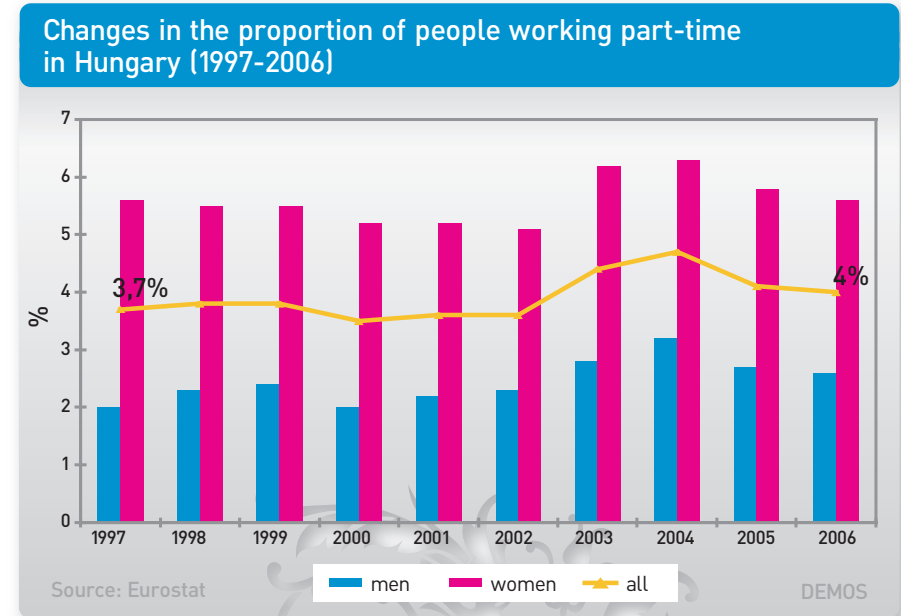
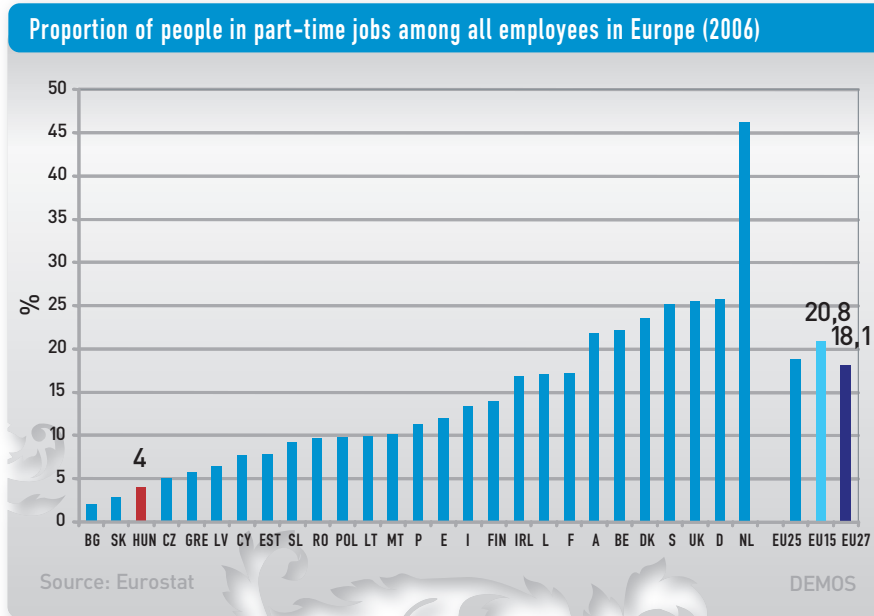


- Hungary is similar in its fertility patterns to Estonia, Latvia, Bulgaria and Slovenia: low fertility rate and a high proportion of births outside of marriage are typical features
- The fertility pattern of the other post-socialist countries is different



- In terms of abortions, we are in the middle range among the post-socialist countries

# Flexible labour-market solutions helping women to return to work after childbirth are missing



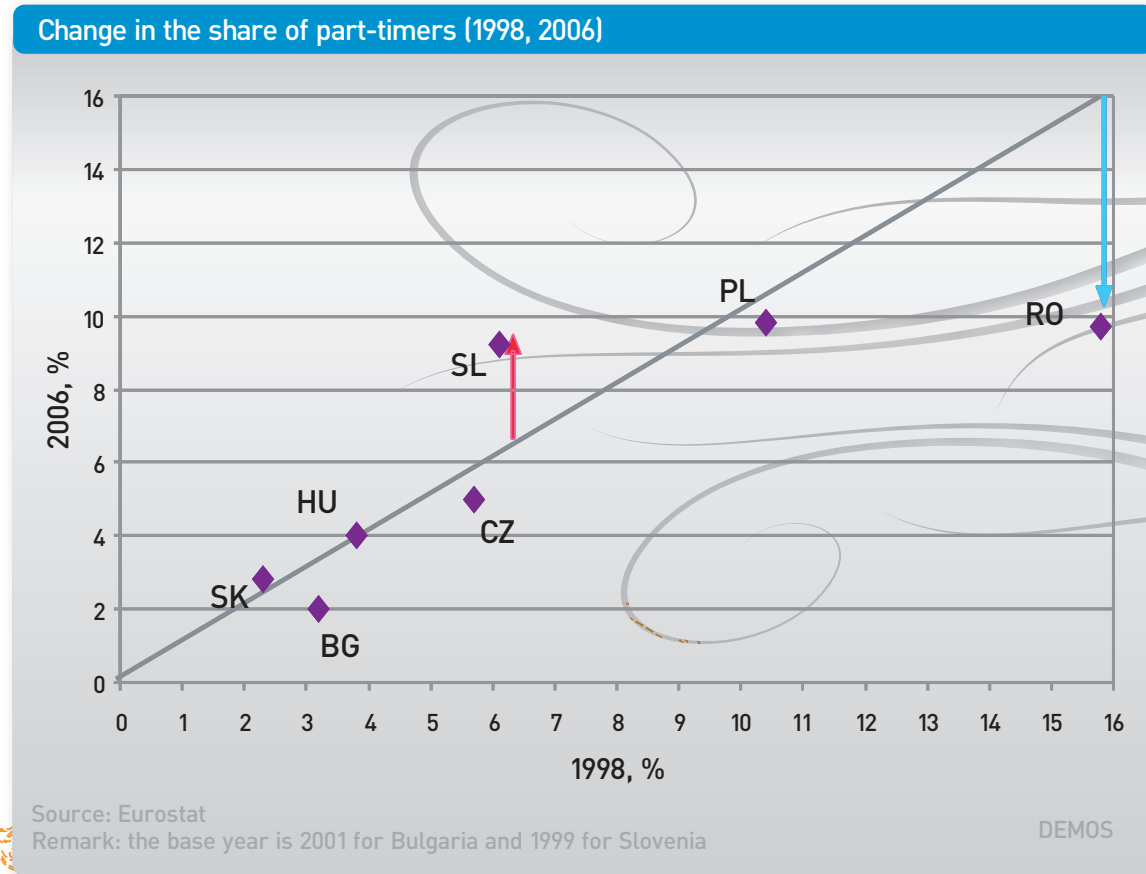
- Part-time employment could be an excellent solution for women at a certain stage of life
- According to a survey taken at the end of 2004, one-third (30%) of working-age women would take part-time employment; the same proportion of active-age but inactive women is 41 percent\*

\*Source: Prime Minister's Office, Governmental Communication Department

- In Europe, Hungary has one of the lowest rates (4%) of people working in part-time employment
- The EU average is nearly five times that of the Hungarian rate

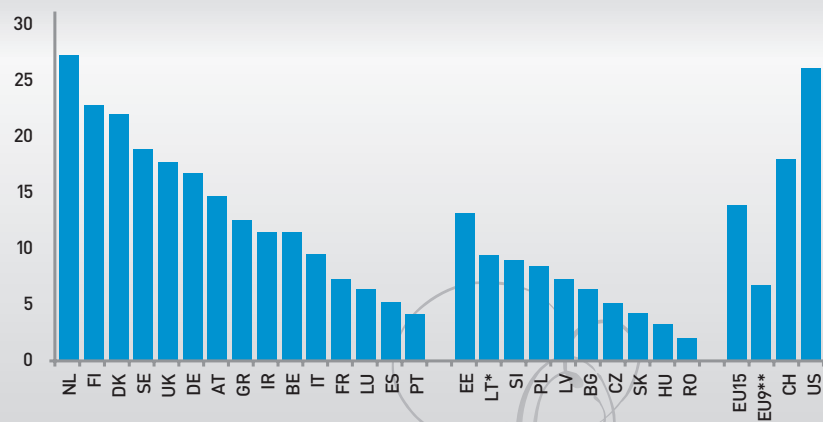
## The proportion of part-time employees has not increased for 10 years

- While the proportion of part-time employees in Europe is growing year by year, in Central East European States there is hardly any change in this respect
- Slovenia is the only country in the region where part-time employment has increased significantly
- The only countries in the region with an even worse part-time employment rate are Slovakia and Bulgaria



# Teleworking is even less known

Proportion of all teleworkers among all active workers, %



\* = LT: mobile teleworkers \*\* = EU10: without LT

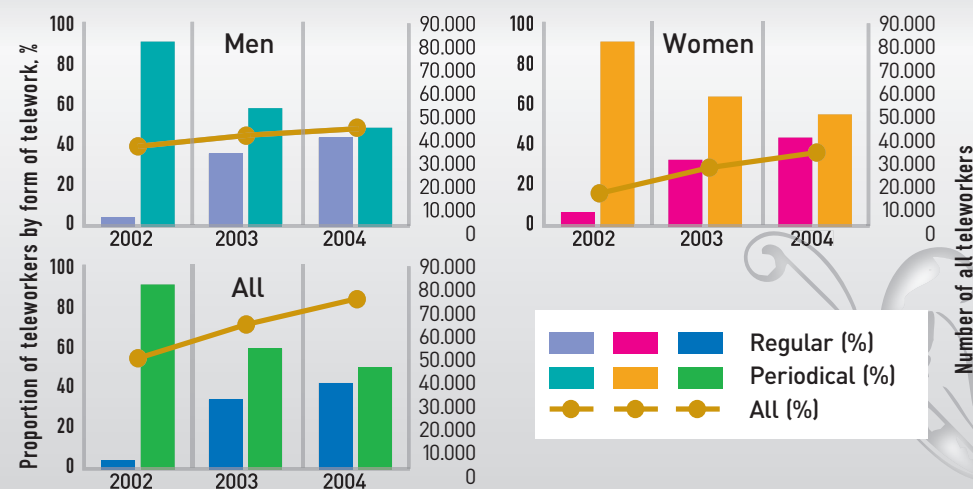
Source: SIBIS

DEMOS

- While the number of teleworkers is increasing, the proportion of regular teleworkers in the case of both men and women is shifting toward regular forms of work and accounting for at least half of working hours

- In 2002/2003, only a few percent of employees were involved in teleworking, while the average of the EU15 was already 13 percent at the time

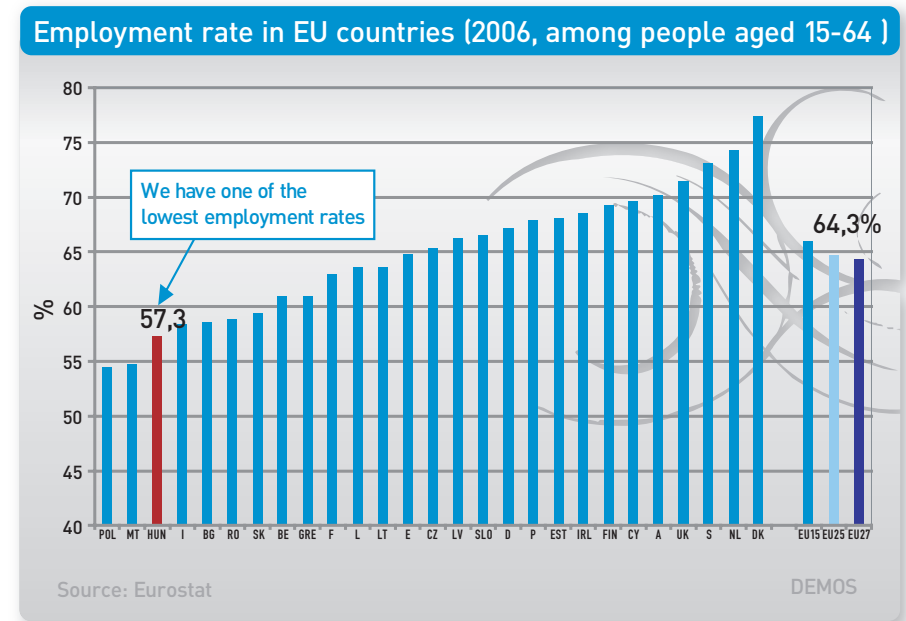
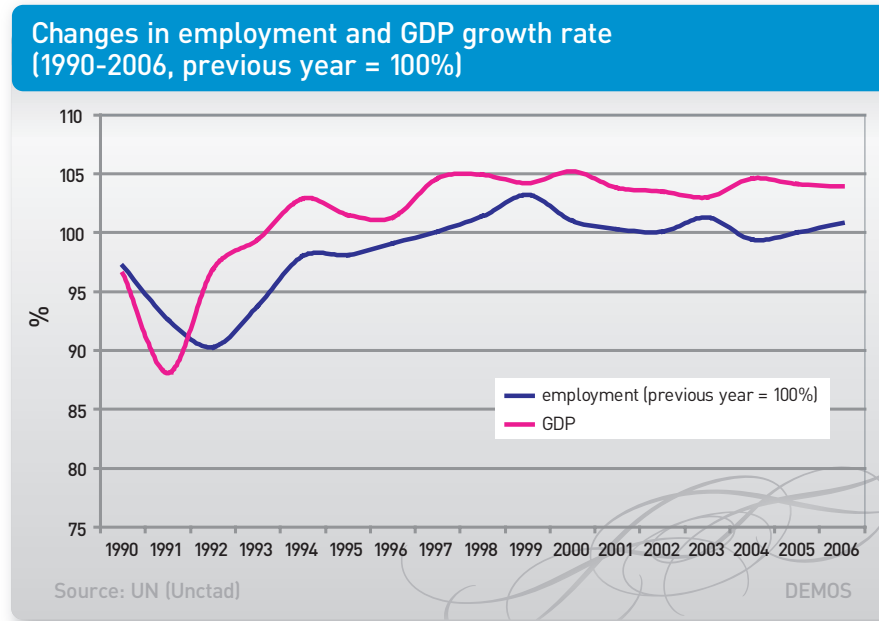
Number and composition of teleworkers by form of telework (2002-2004), (per sex), (%)



Source: Hungarian Central Statistical Office – KSH, Kopint-Datorg

DEMOS

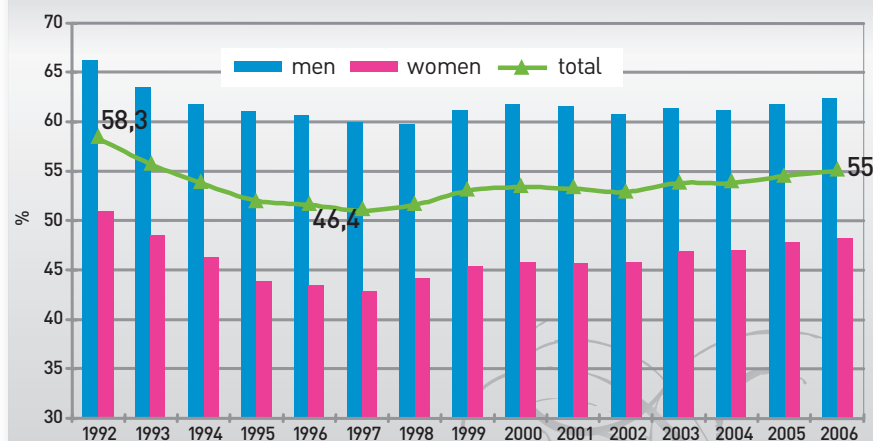
## The growth of the employment rate is below that of economic growth



- In 2006, the Hungarian employment rate was 6.5 percentage points lower than the average of the EU27
- Of all member states of the EU, only Poland, Malta and Bulgaria have lower employment rates than Hungary
- After the hard period following the political changes, both the economy and the employment level grew dynamically, although the rate of growth of employment was behind that of the economy

# Levels of employment and economic activity are low

Activity rate, people aged 15-74



Source: Hungarian Central Statistical Office - KSH

The activity rate shows the proportion of the population who are economically active (employed and unemployed combined) in a given age group

- Of all member states of the EU, only Malta has a lower activity rate than Hungary
- The activity rate bottomed out in 1997, and even though its tendency is increasing, it still has not reached the 1992 level

Employment rate (1996-2006), 15-64 years of age, %

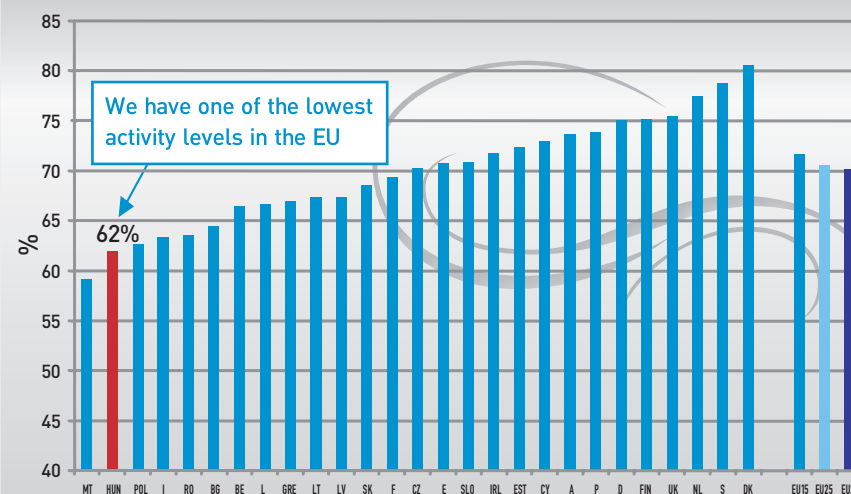


Source: Eurostat

The employment rate shows the proportion of the population who are in employment in a given age group.

- The activity rate has been increasing since 1996, but the rate of increase came to a halt in 2001

Activity rate in EU countries (2006), 15-64 years of age, (%)



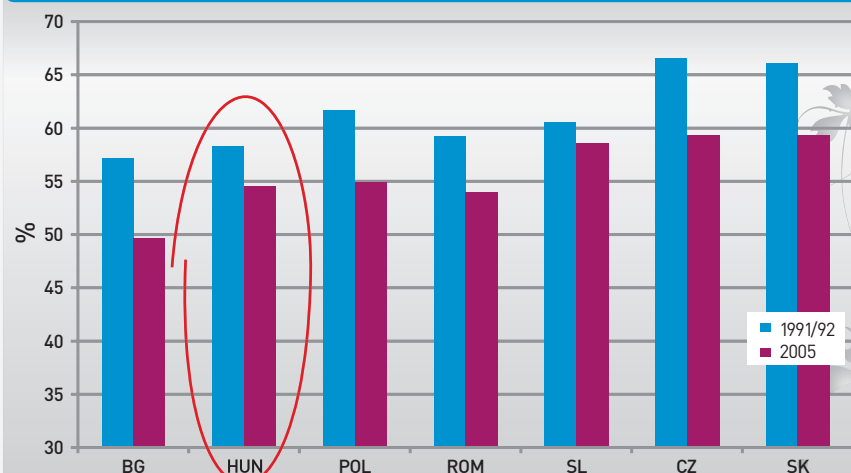
Source: Eurostat

DEMOS

## The only country in the region with a lower employment rate is Poland

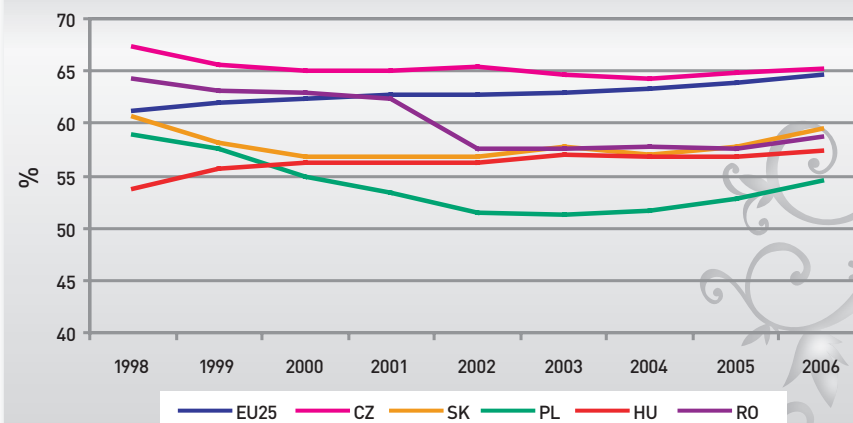
- The activity of working-age people has been decreasing at a comparable rate in Central European countries since the political changes
- Due to the low starting point, however, we currently stand in almost the last place in the region in terms of the people actively participating in the economy

Change of activity rate in Central and Eastern European countries among people over 15 (1991/92, 2005)



Source: ILO, LABORSTA

Employment rates in the Visegrád countries and Romania (1998-2006), 15-64 years of age, (%)



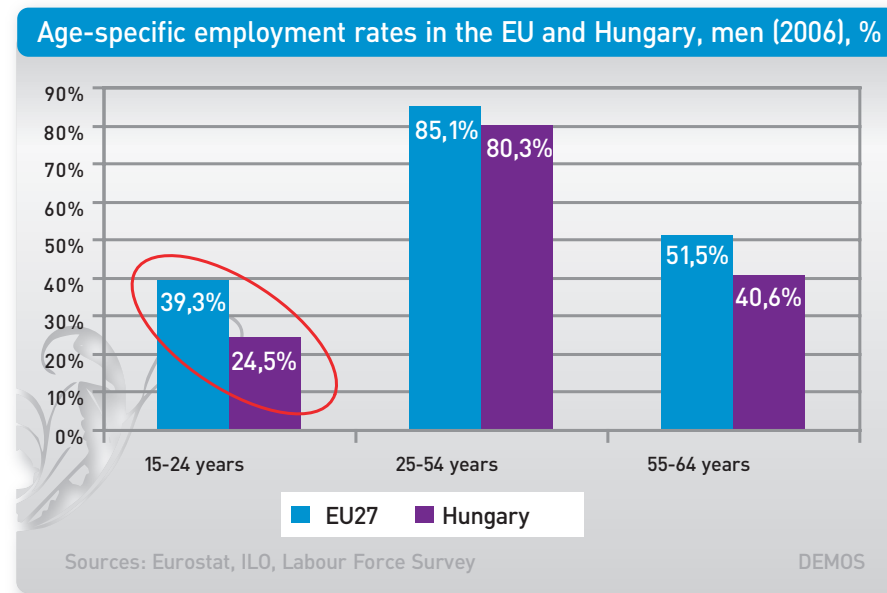
Source: Eurobarometer 237. (Summer 2005)

DEMOS

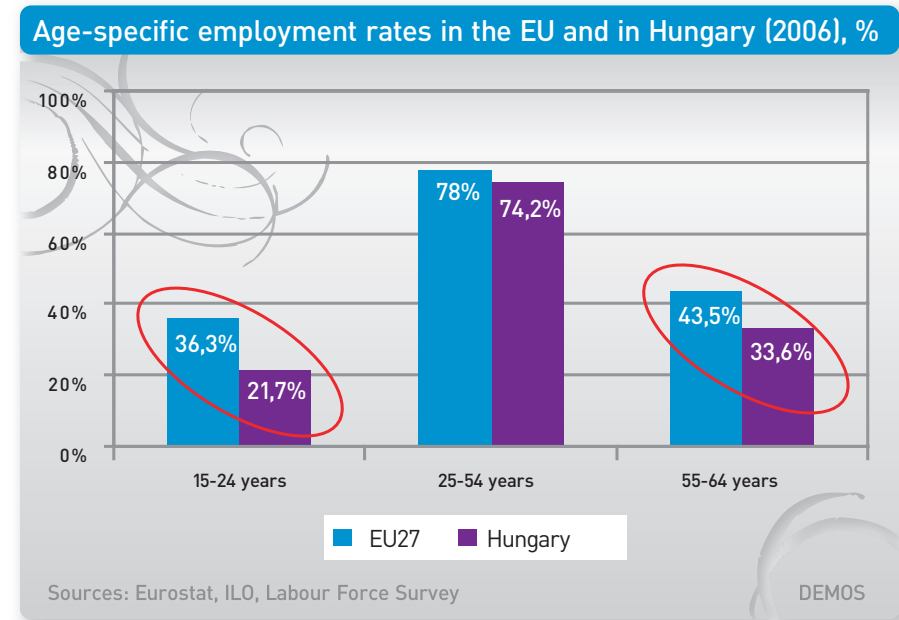
- The employment rate in the Czech Republic has been continuously above the EU average, with other countries of the region below that level
- The employment rates of Slovakia and Hungary was at around the same level from 2000, but it increased in Slovakia after 2006
- The employment rate of Romania was also around 57% after 2002, but it has been increasing since 2006, too



**In comparison with other member states, the shortfall in employment rates is significant, especially among the young and the elderly**



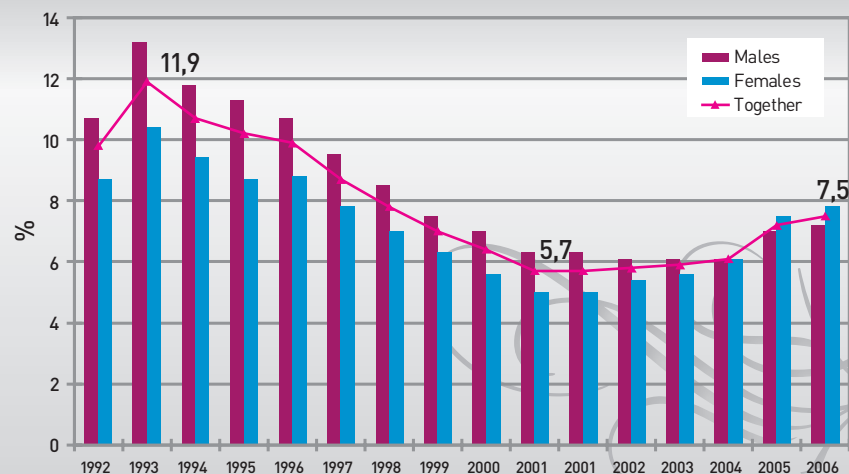
- The employment deficit of the young age group is due to the longer time spent in education, while among the elderly it is due to early retirement



- The employment deficit for men aged 55 to 64 is somewhat higher than in the case of women in the same age group
- In the 15 to 24 age group, however, a bigger shortfall from EU employment levels is found in the case of women

# Reducing unemployment remains a major challenge

Unemployment rate (1992-2006)



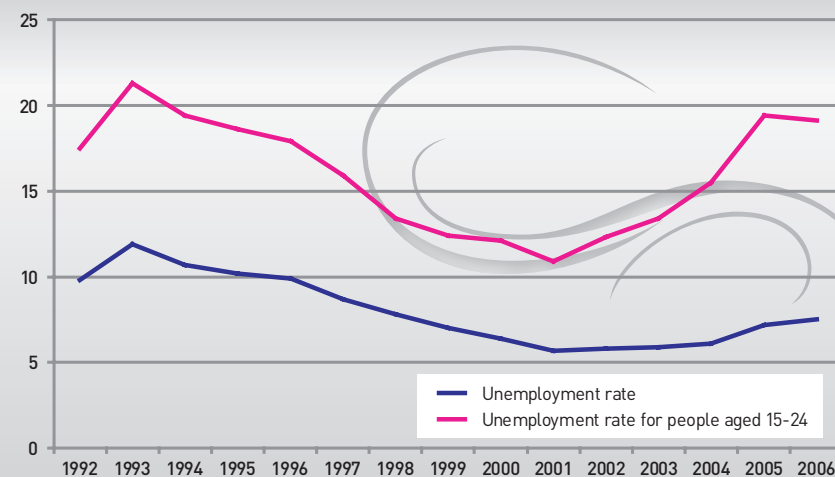
Source: Hungarian Central Statistical Office – KSH

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- The unemployment rate decreased between 1993 and 2001, and increased after 2001
- Although for a long time - and unlike in Europe in general - the unemployment rate was lower for women than for men, this has no longer been true since 2004

- The threat of unemployment was continuously decreasing until 2001, and significantly increased afterwards
- Currently, the unemployment rate of young career-starters is two and a half times as high as for older age groups

Unemployment rate for people between 15-24\* (1992-2006)



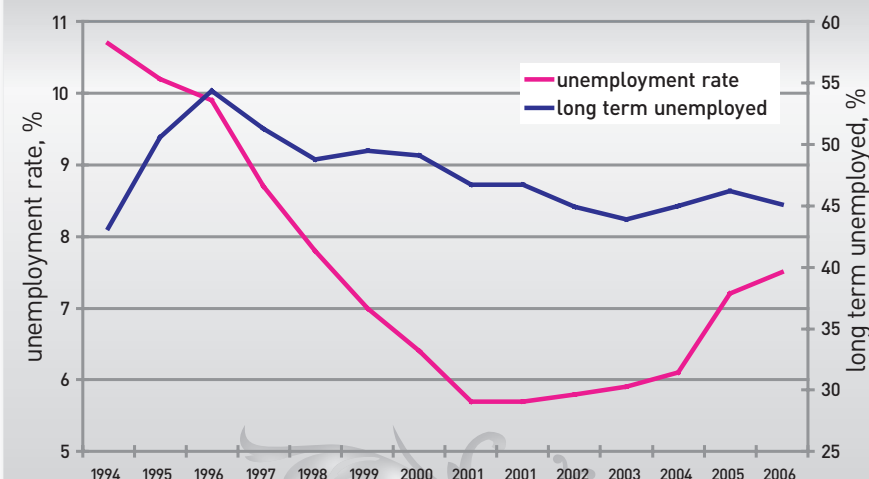
Source: Munkaerőpiaci Tükör 2006, Eurostat  
\* The 15 to 24 age group does not include students

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## The long-term unemployed are in an especially perilous situation

- The proportion of long-term unemployed has been slightly decreasing since 1996
- It still remains a problem to tackle that many of the unemployed are not able to find their way back into the labour market within one year
- This seriously increases the chances of being excluded from among the active and legally employed people for a long time, even permanently
- Due to the school system “producing” too many people with degrees, graduate unemployment has increased, especially among women

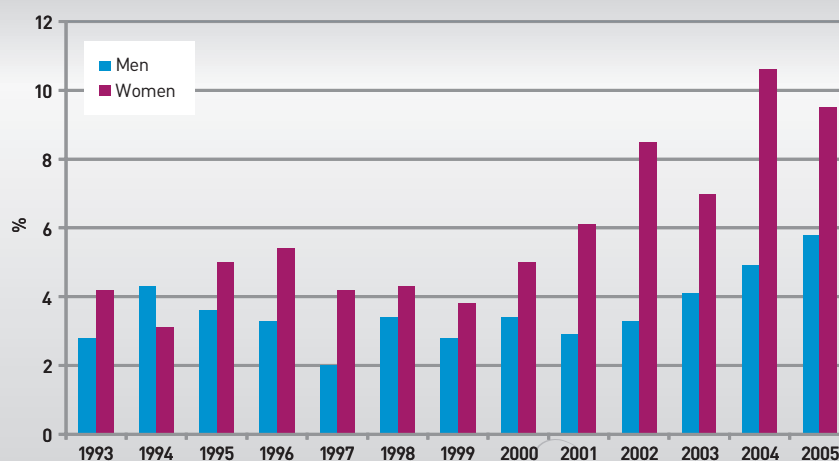
Proportion of long term unemployed people (1994-2006)



Sources: Munkaerőpiaci Tükör (2004, 2006), Eurostat  
\* Remark: people without employment for more than 12 months

DEMOS

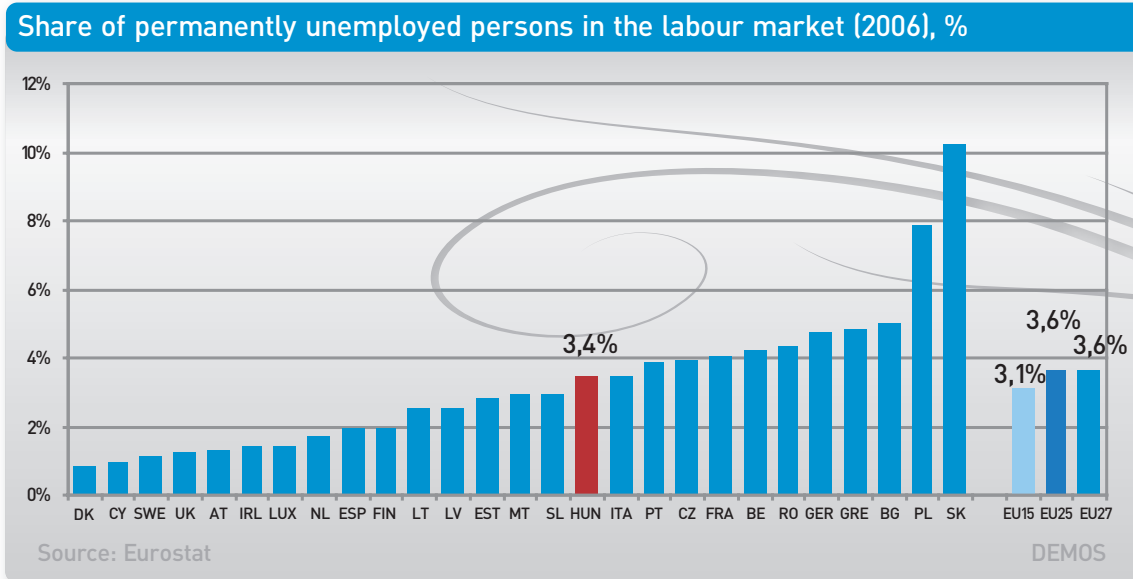
Proportion of graduates among all unemployed (1983-2005)



Source: Munkaerőpiaci Tükör 2006

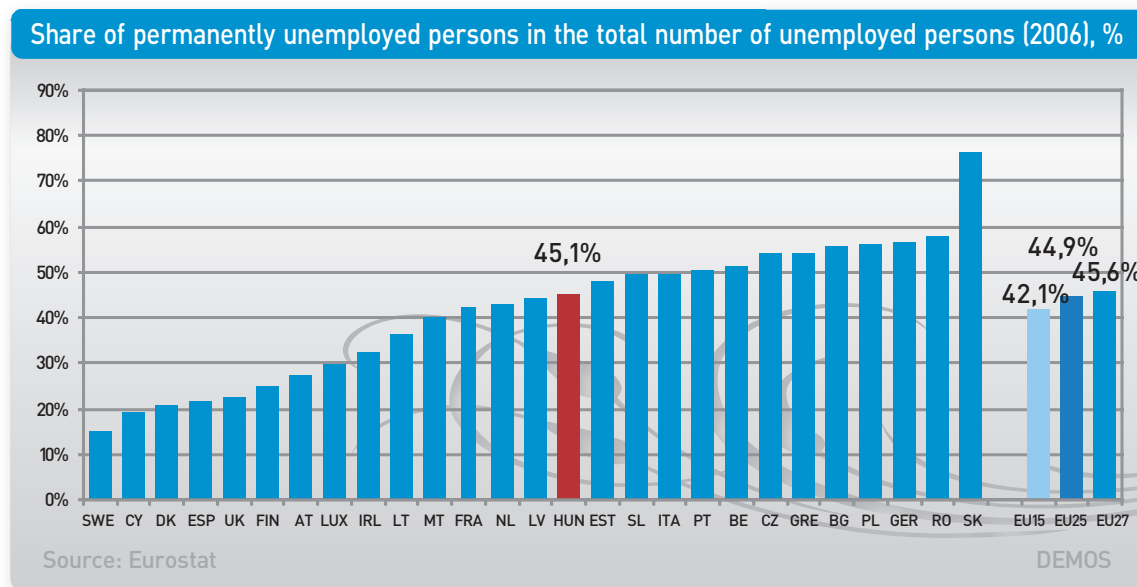
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# The proportion of long-term unemployed is around the EU average



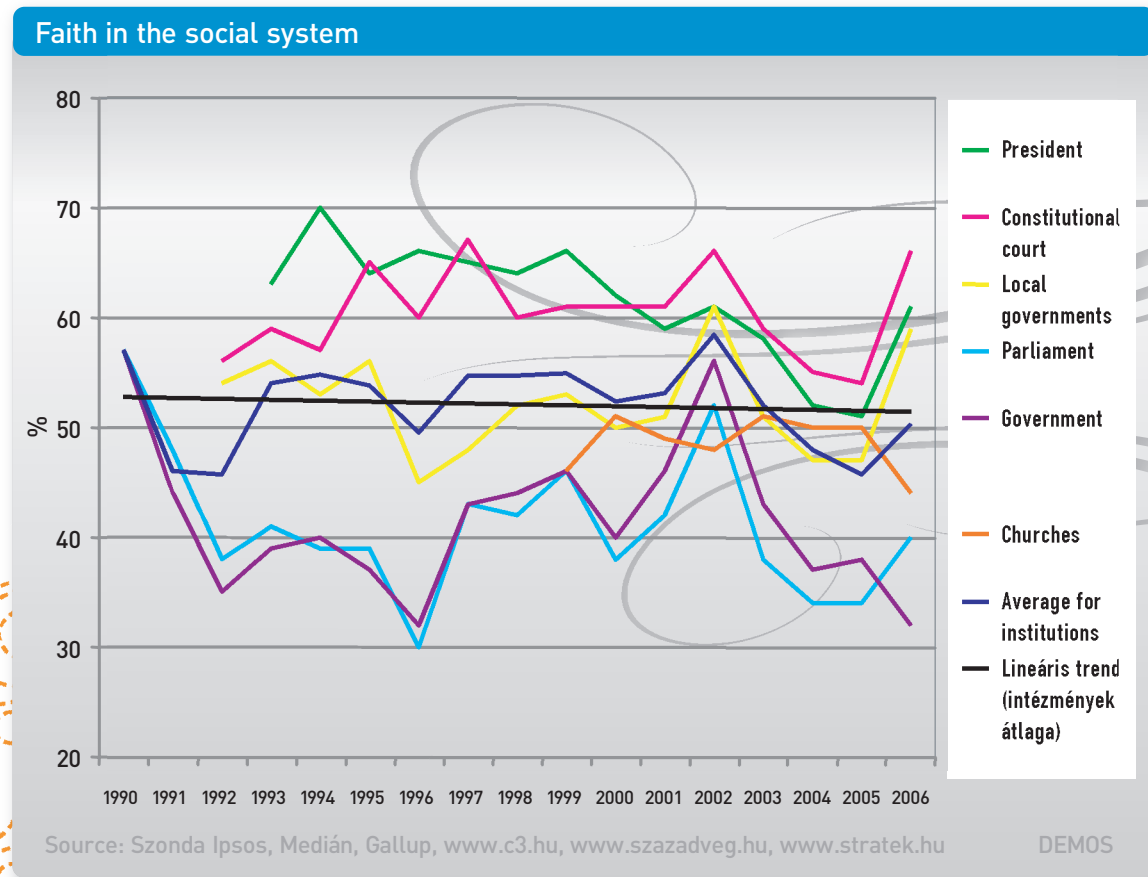
- Hungary is around the EU average in terms of the proportion of long-term unemployed

- The proportion of long-term unemployed within all unemployed is the lowest in Hungary in the region



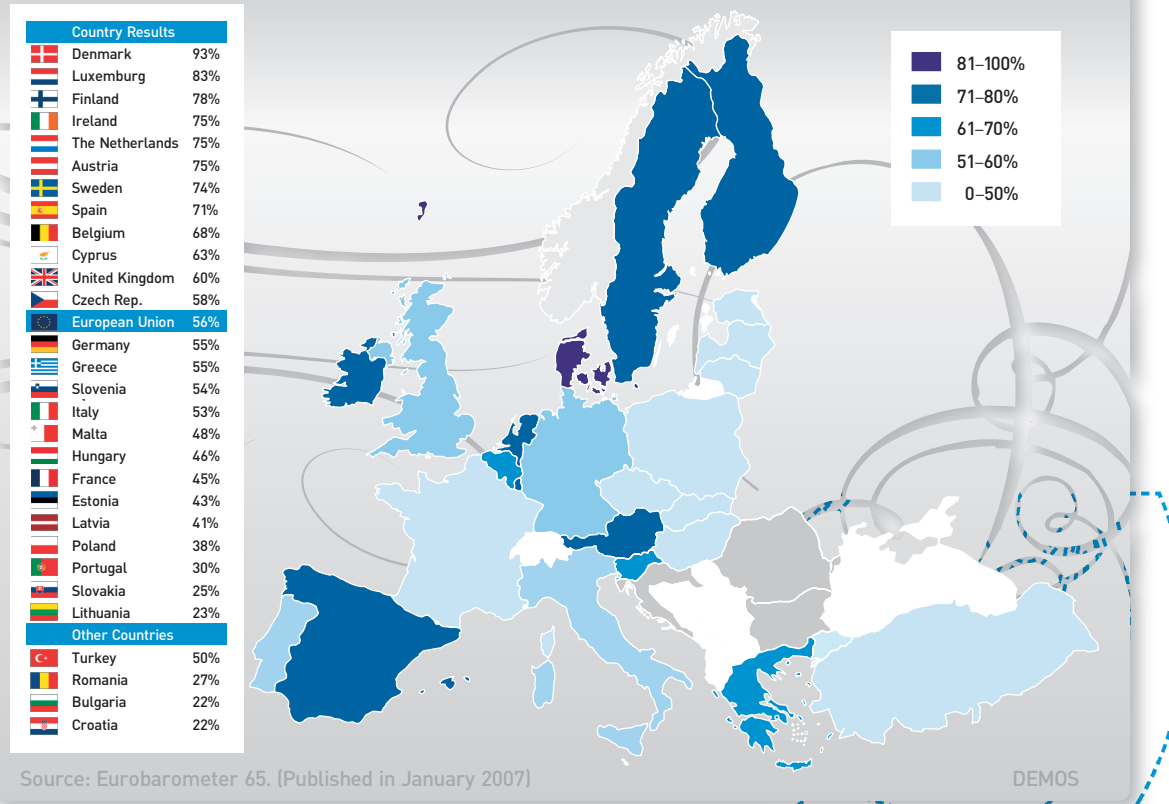
# Trust in the system of social institutions is continuously decreasing

- The euphoria after the political changes quickly subsided, and the trust in democratic institutions quickly decreased first, then fluctuated, but remained at a low level
- The trust in institutions has been continuously decreasing since 2002
- The confidence index of the Constitutional Court, the President of the Republic, local governments and Parliament is at its lowest point in the past one and a half decades
- Since 2005, trust has slightly increased in all institutions except the government and churches



# Hungarians are not satisfied with the way democracy functions

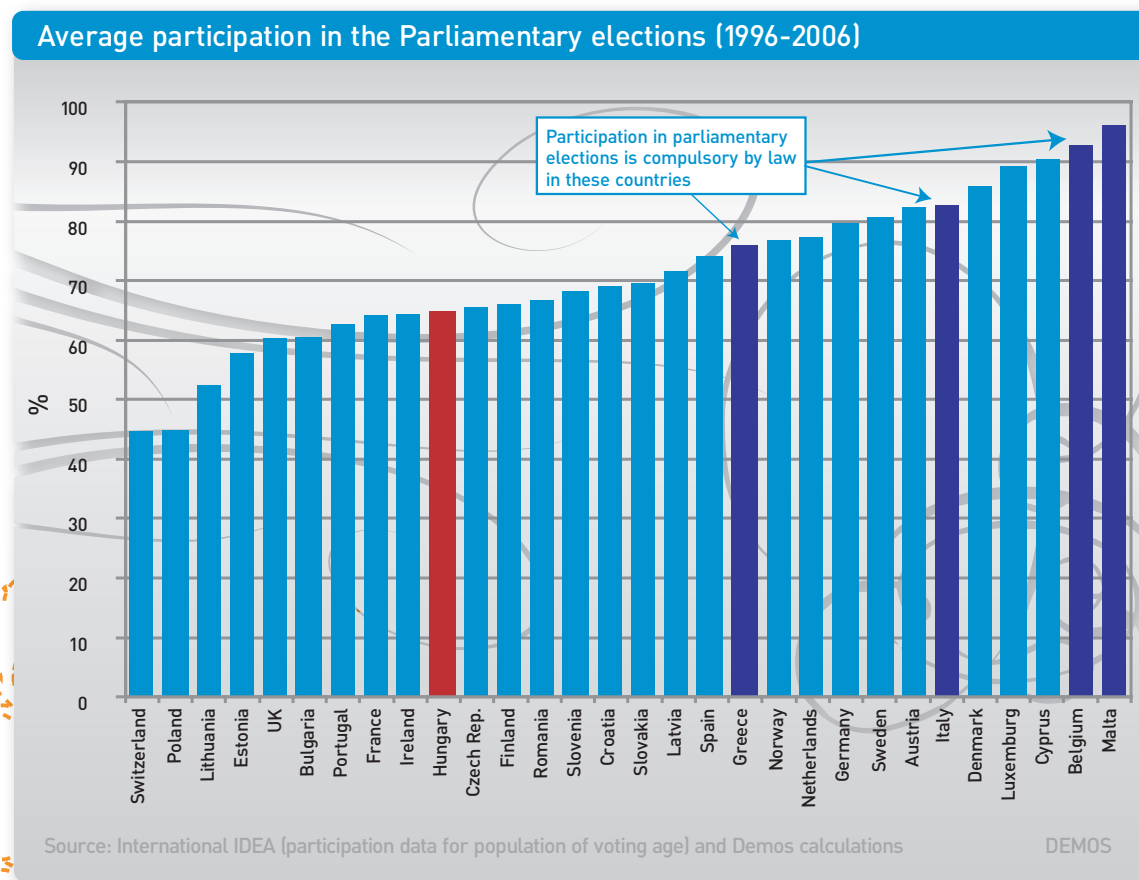
Are you satisfied with the way democracy works in your country?  
Proportion of “very satisfied” and “satisfied” answers (2007)



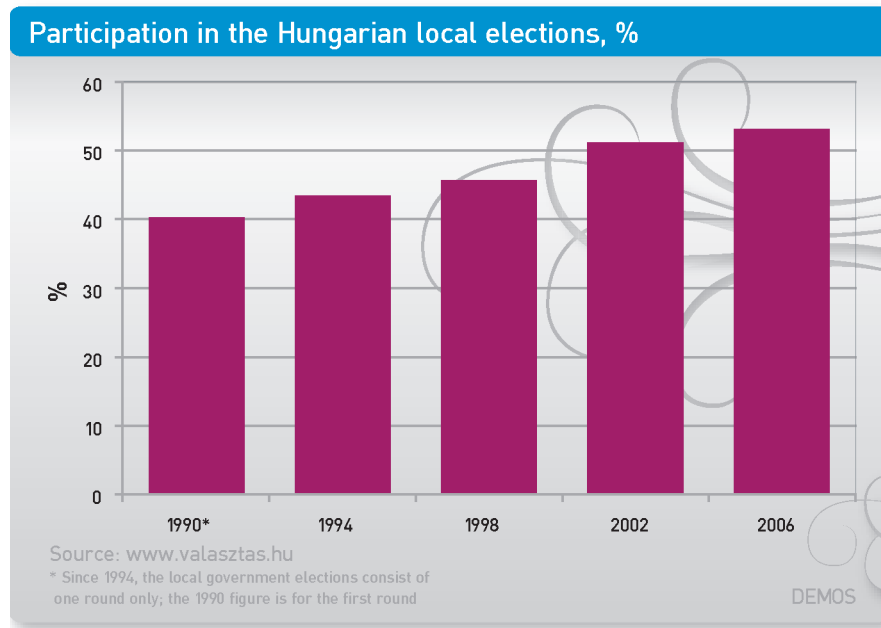
- In European comparison, satisfaction with democracy is average in Hungary
- In the Central East European region, the Czechs and the Slovenians are more satisfied with the way democracy functions than the Hungarians

## Voter turnout in parliamentary elections is low in European comparison...

- The willingness to vote in parliamentary elections has increased in Hungary, but is still low
- Among the Visegrád Four, only Poland has a lower average participation rate

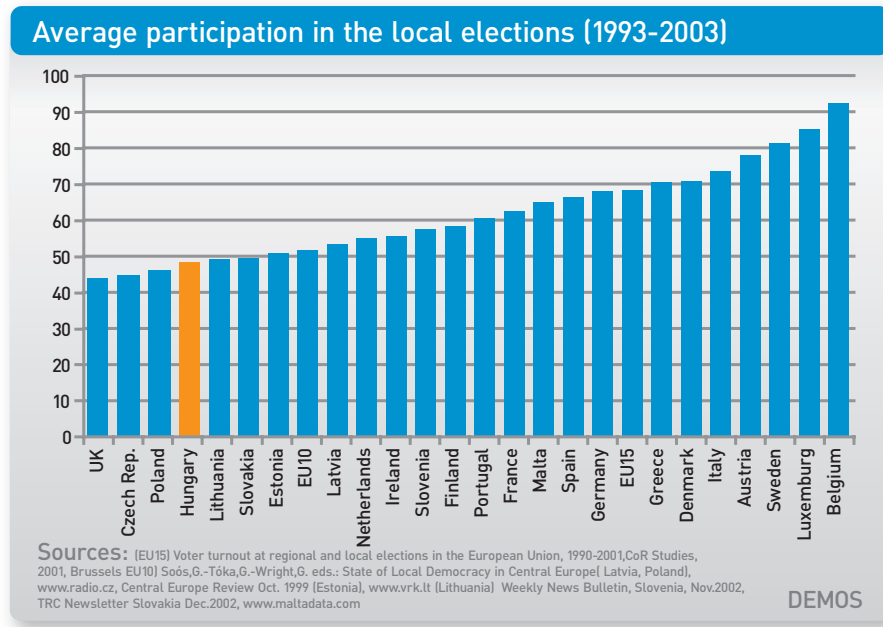


## ...voter turnout in local elections is lower still



- In Hungary, participation in local elections is always lower than in parliamentary elections
- However, voter turnout has been increasing since 1990

- The average participation in local government elections is one of the lowest in the EU

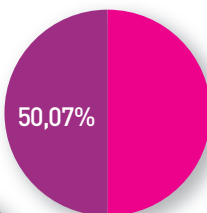




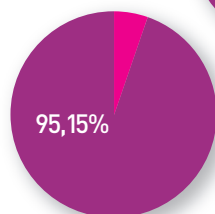
# Turnout at referenda is continuously decreasing, and we always answered with “yes”

Participation and results in nationwide referenda (1989-2004)

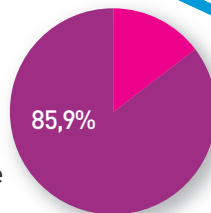
Should the president of the republic be elected after the parliamentary elections? (CONCLUSIVE, YES)



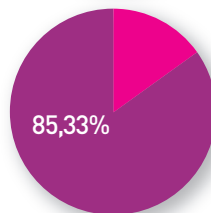
Should party organisations leave the workplace? (CONCLUSIVE, YES)



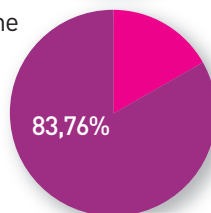
Do you agree that the president of the republic should be elected directly? (YES, BUT INVALID)



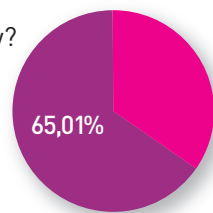
Do you agree that the Republic of Hungary should join NATO in order to ensure the protection of the country? (CONCLUSIVE, YES)



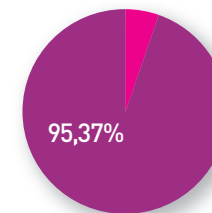
Do you agree that the Republic of Hungary should become a member of the European Union? (CONCLUSIVE, YES)



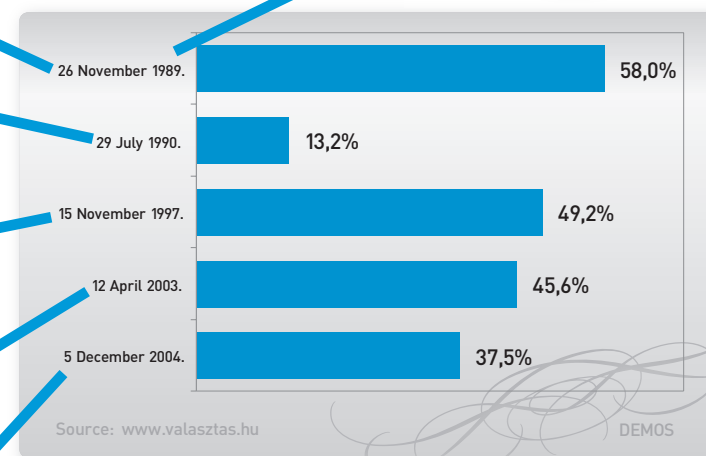
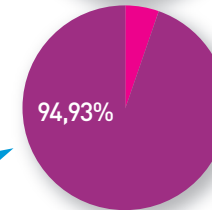
Do you agree that the institutions of public health services and hospitals should remain in state and municipal ownership, and for this reason the Parliament should abrogate the contrasting law? (YES, BUT INVALID)



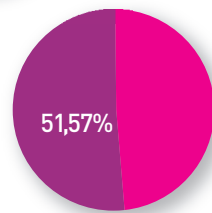
Should MSZMP account for the assets in its ownership or custody? (CONCLUSIVE, YES)



Should the workers' guard be dissolved? (CONCLUSIVE, YES)



Do you agree that Parliament should pass new legislation on offering - upon individual request - Hungarian citizenship, by preferential naturalization, to non-Hungarian citizens, living outside Hungary, declaring themselves to be of Hungarian nationality, proving their Hungarian nationality either by a "Hungarian Certificate" under Act 62 of 2001, Section 19, or in another way as defined in the law requested for legislation? (YES, BUT INVALID)



www.demos.hu

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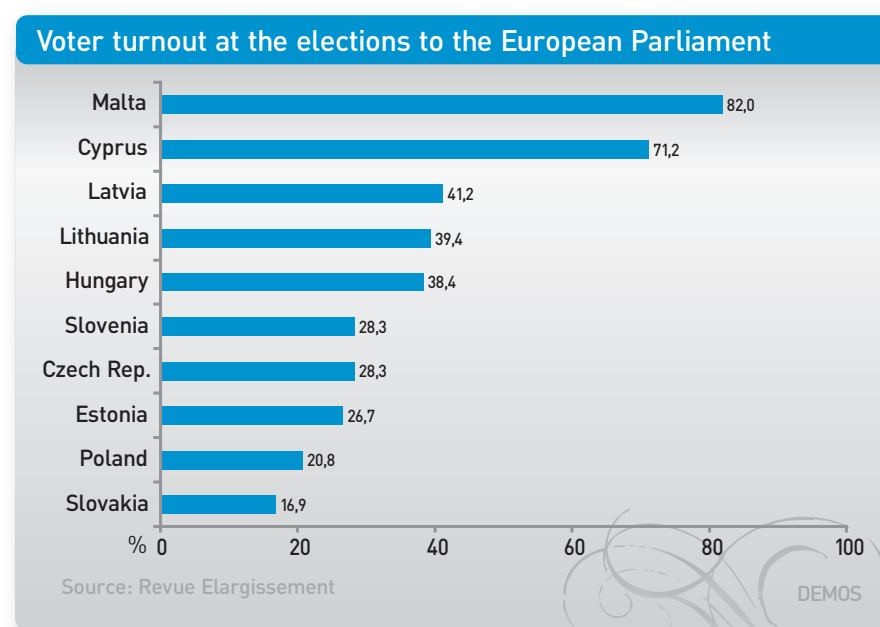
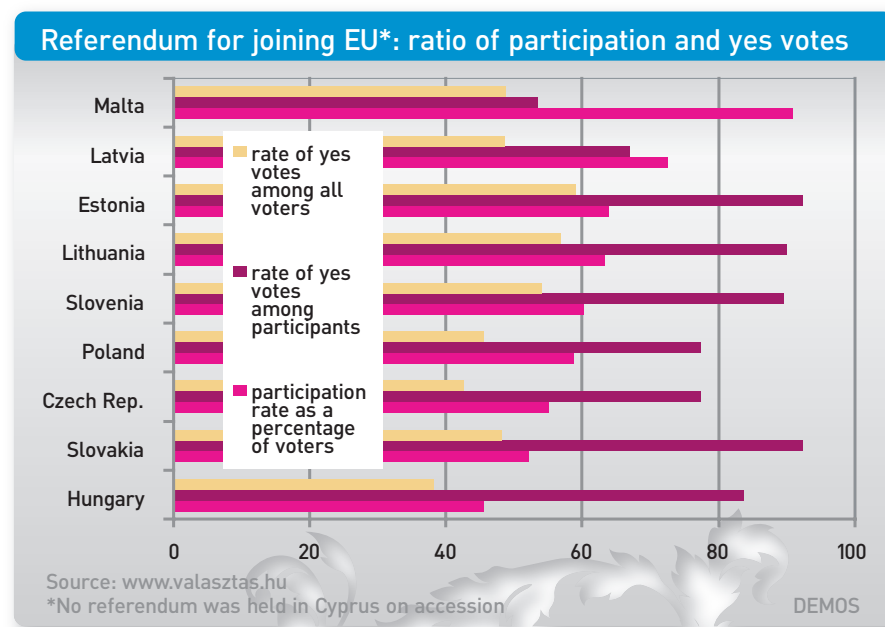
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# Low turnout at the EU referendum and the EP elections

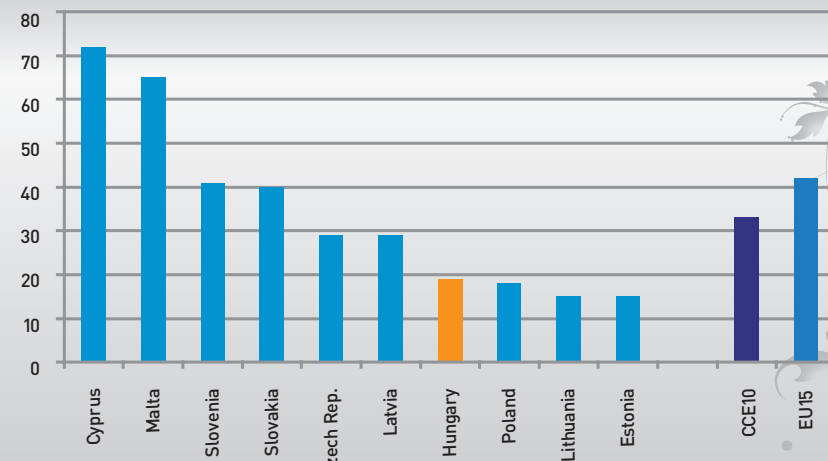
- Turnout at the EP elections was even lower in Hungary
- From among the new member states, only Cyprus and Malta had a large turnout
- Hungary had the lowest turnout at the referendum on accession to the EU
- Even though the percentage of “yes” votes was high, the number of supporters in proportion to the total number of citizens eligible to vote was the lowest



## The level of unionisation is low and only a fraction of its pre-transition level

- A high level of trade union organisation only remained in those sectors where the proportion of state employees is high, or where there are only few, but large companies
- In competitive, multi-player sectors, more exposed to market conditions, trade unions have a minimal presence only

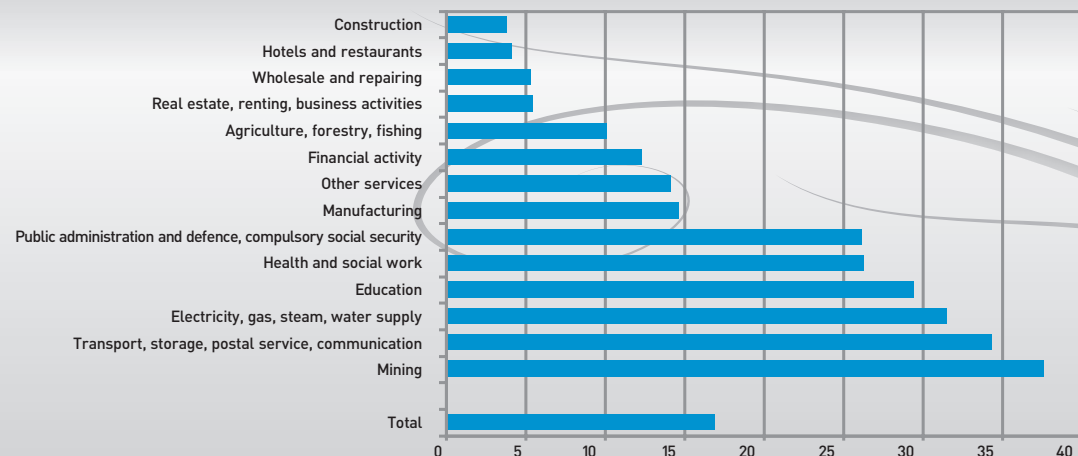
Organization indicators of unions (2005), %



Source: www.ofakht.hu

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Proportion of union members among all employees, by sectors (2004), %



Source: Hungarian Central Statistical Office – KSH

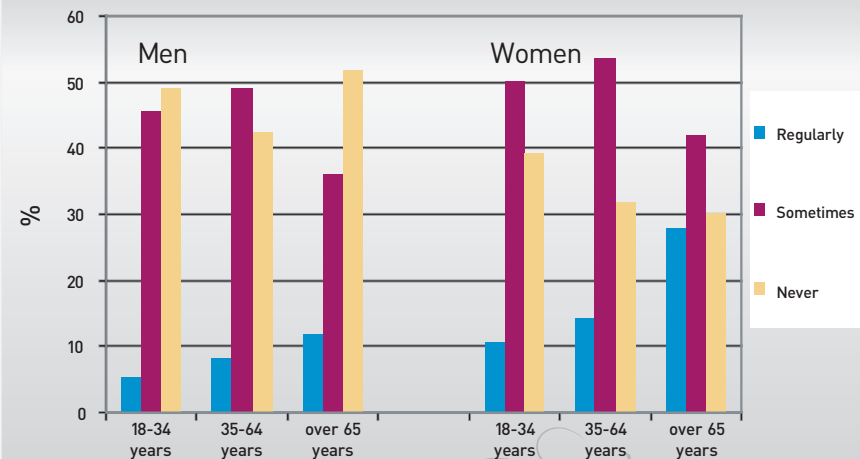
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- In European comparison, the level of trade union organisation is rather low in Hungary

# Many people call themselves religious, but few follow the teachings of the church

- Women of all age groups attend church more frequently than men
- Older people attend church more frequently than the young

Frequency of churchgoing in the adult population (2003), %

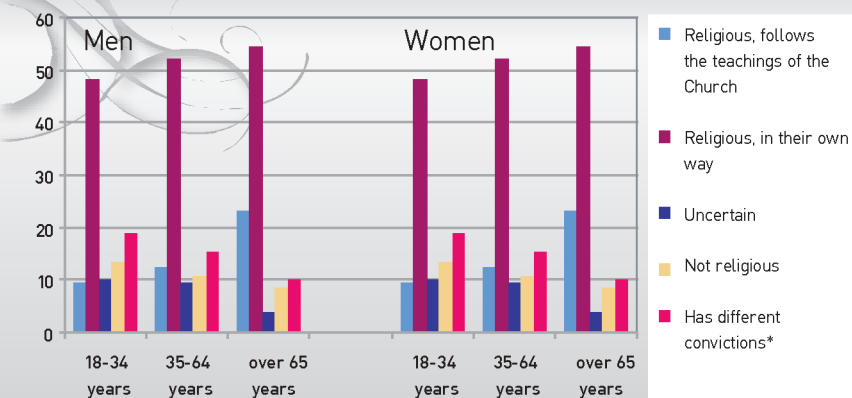


Source: National Health Survey 2003

DEMOS

- Most people are religious “in their own way” and not according to the teachings of the church
- In older age groups the proportion of people who are non-religious or otherwise convinced becomes lower

Proportion of self-proclaimed religious people in the adult population (2003)

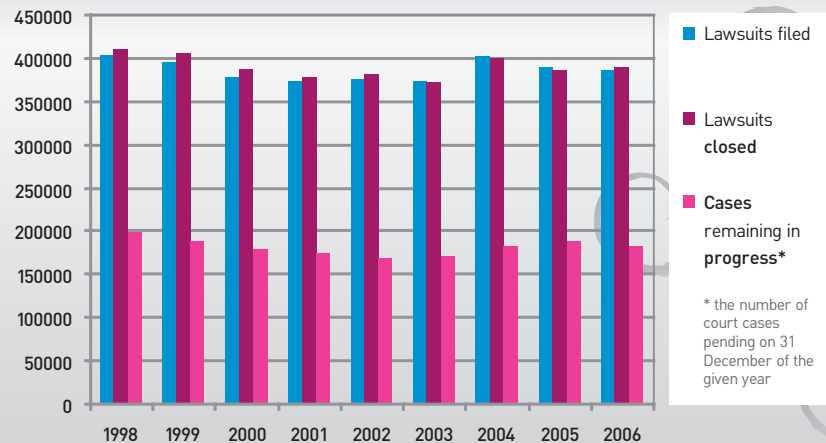


Source: National Health Survey 2003

DEMOS

# The efficiency of the justice system is stagnating

Trends in number of cases closed and remaining in progress at local, regional courts and tribunals



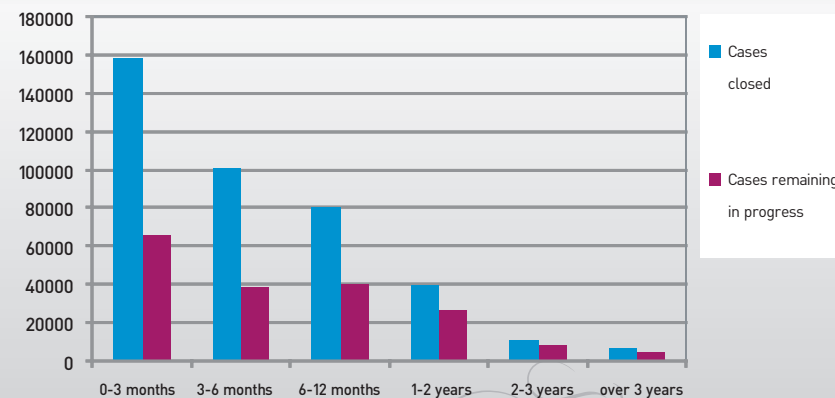
Source: [www.birosag.hu](http://www.birosag.hu)

DEMOS

- The proportion of finished vs. unfinished cases in courts has not changed much over recent years
- Both the number of cases submitted to courts and the number of finished and pending cases per year slightly decreased between 1998 and 2006

- 40 percent of the cases closed in 2006 were finished in three months, with an additional 25 percent in six months

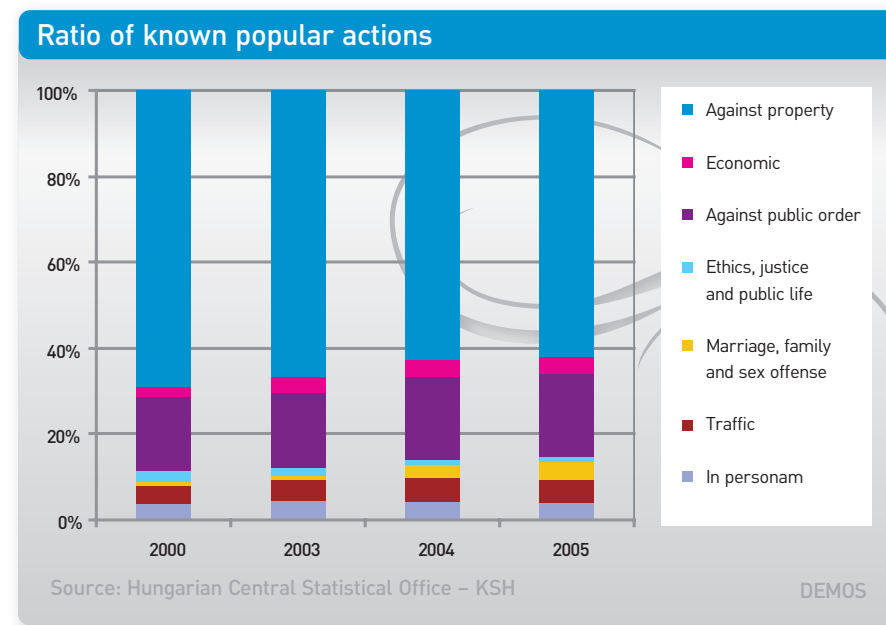
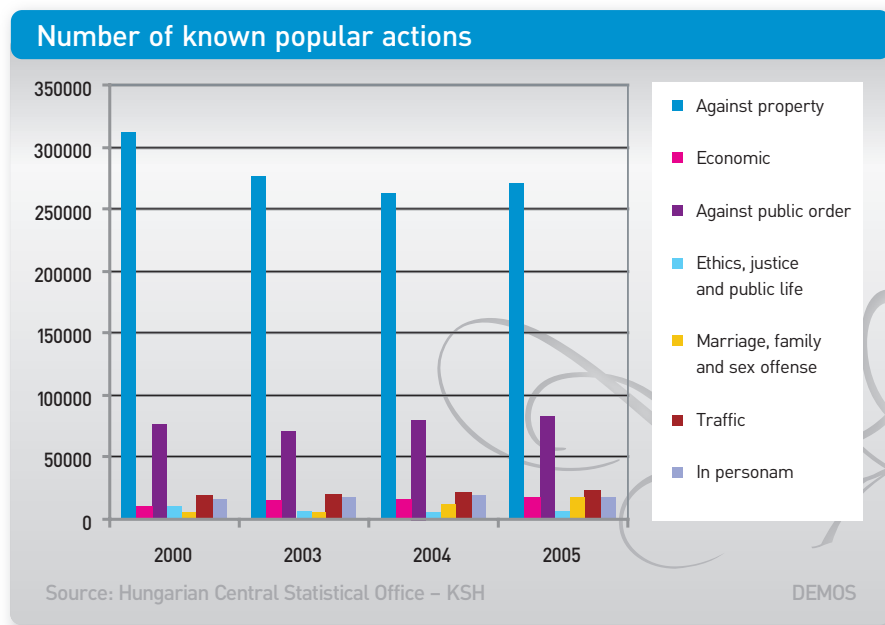
Time required for the proceedings at the local, county-level courts and first-instance courts, in cases closed in the year 2006 and in cases still in process as at December 31, 2006



Source: [www.birosag.hu](http://www.birosag.hu)

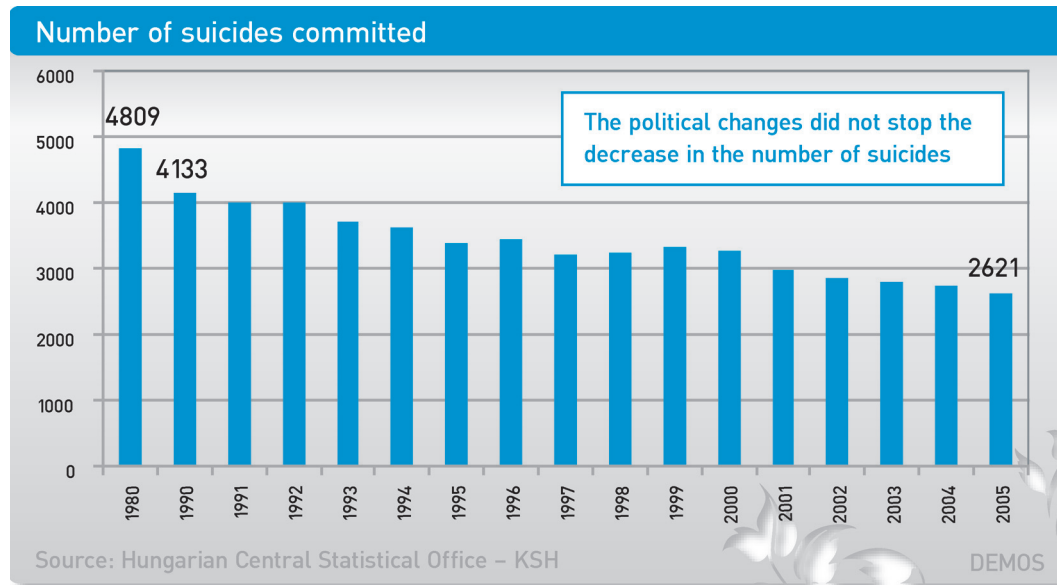
DEMOS

# Crimes against property are frequent

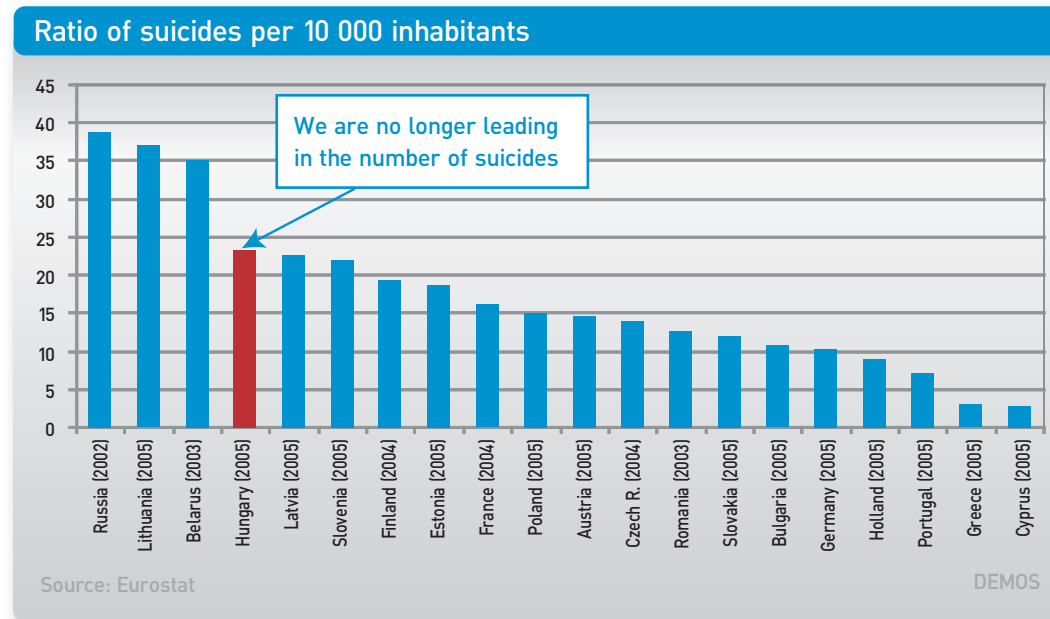


- The most frequent types of crimes are those against property and public order
- The number of crimes against property is decreasing, but crimes against public order, marriage, family, youth and sexual ethics are becoming more frequent

# Suicide: continuously improving tendency



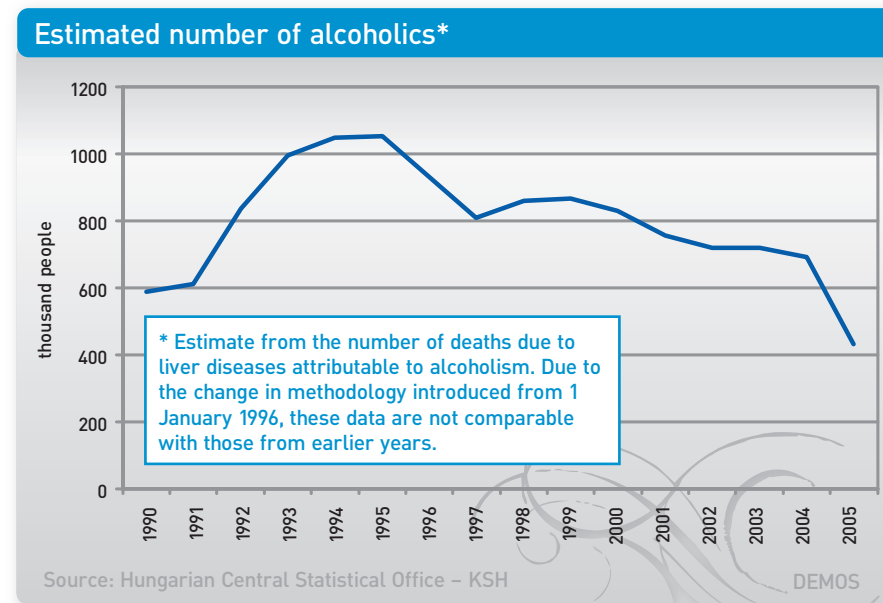
- The number of suicides has been continuously decreasing since the political changes



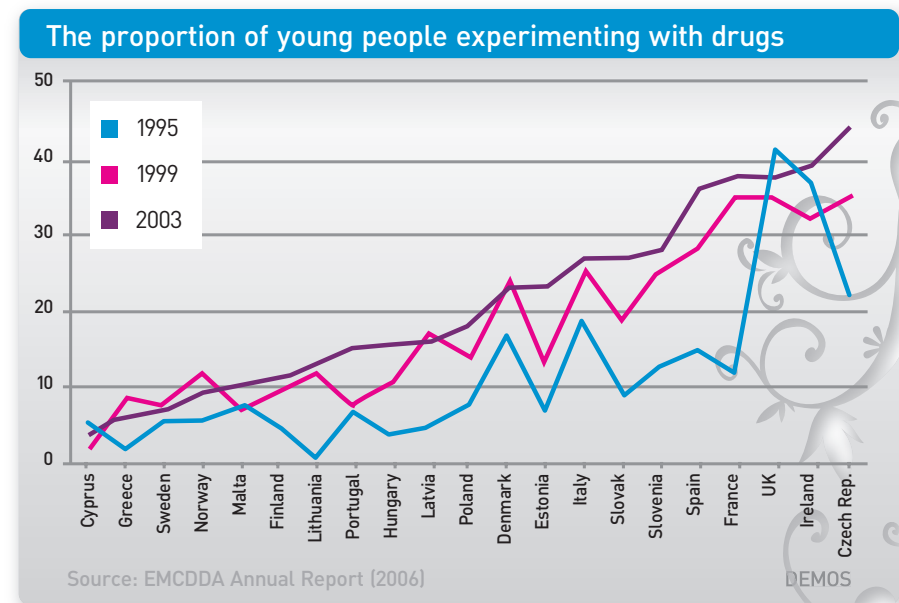
- In terms of the number of suicides, Hungary stood in 4<sup>th</sup> place in Europe in 2005

# Society is unable to tackle the problem of alcoholism

- Alcoholism is one of the leading causes of death, and also a serious source of social deviance
- Judging from the number of illnesses and deaths typical of alcoholics, there were approximately 432,000 alcoholics in the country in 2005, which means 4.3% of society
- The danger of alcoholism to society is huge: much more serious than drugs



- The proportion of young people experimenting with drugs is relatively low in comparison with other countries examined
- Between 1995 and 2003, the percentage of young people who tried cannabis has significantly increased
- The use of drugs, and especially soft drugs, is an age-related specific, and the number of drug users after the age of 20 is lower

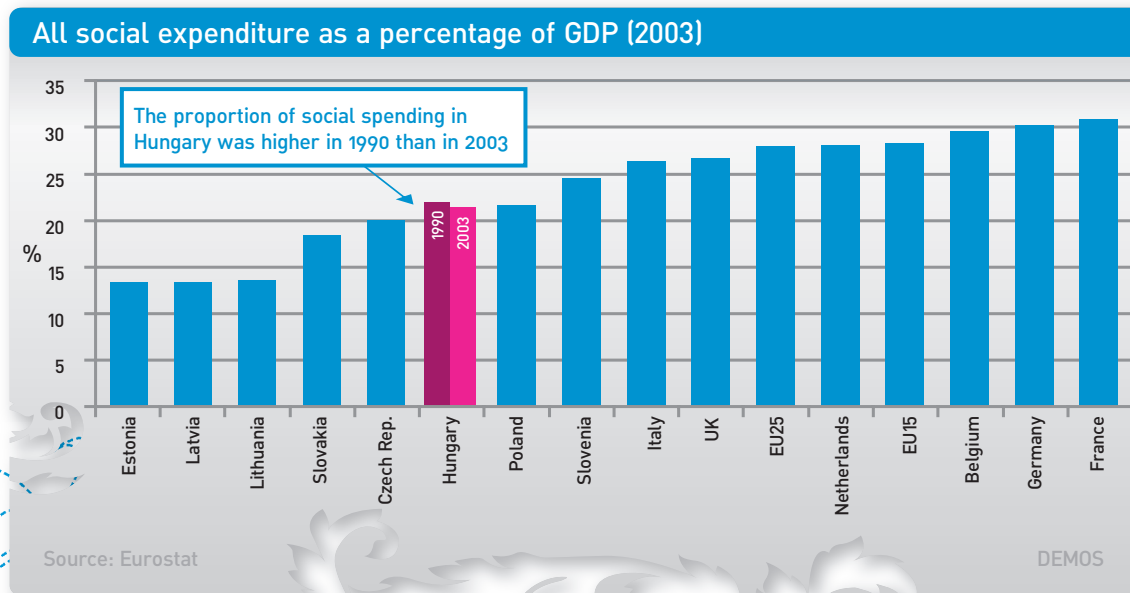




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## Hungary is spending below average on social purposes

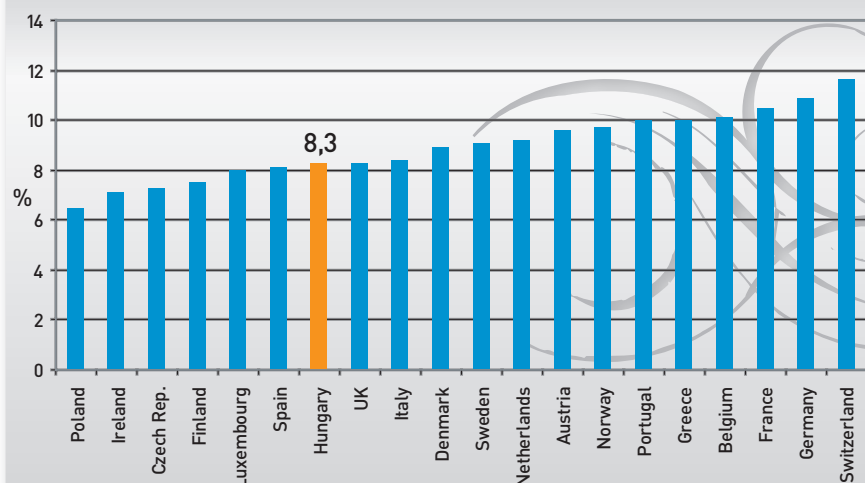


The category the OECD calls “spending on social safety net” includes spending on public healthcare, financial and non-financial expenditures on the elderly, as well as community spending on non-elderly members of society

- In terms of the extent of social spending Hungary is more similar to Anglo-Saxon countries than the welfare states of Europe
- Although the systems are different, the extent of Hungarian social spending does not reach the average level of the welfare states in Western Europe

# Healthcare is relatively underfinanced

Total health expenditure as a percentage of GDP (2004)



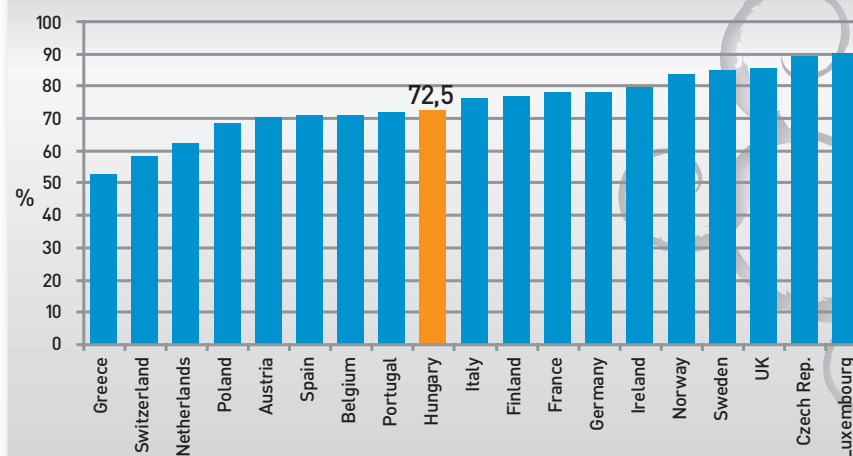
Source: Hungarian Central Statistical Office – KSH

DEMOS

- 8.3 percent of GDP was spent on healthcare in 2004, which is 1.5 percentage points higher than in 2001
- The total healthcare spending of Hungary is low in European comparison

- Three-quarters (72.5%) of all healthcare spending is covered by the state
- This is an average proportion in European comparison

National health expenditure as a percentage of total health expenditure (2004)



Source: Hungarian Central Statistical Office – KSH

DEMOS

# The performance of the Hungarian healthcare system is poor

- According to the complex evaluation of WHO, the healthcare system of Hungary does not perform well: it is behind East-Central European countries of comparable development
- The Hungarian performance is below that of European countries in all respects\*

\* The evaluation scheme established by WHO in 2000 ranks the countries according to five criteria:

- general health condition
- the distribution of the above
- to what extent the healthcare system meets the expectations of society the distribution of the above
- how fairly the costs of maintaining the healthcare system are distributed within society

The final order is established on the basis of the combined evaluation of these five criteria. The performance of each of the countries according the various criteria is established by the healthcare experts of the countries.

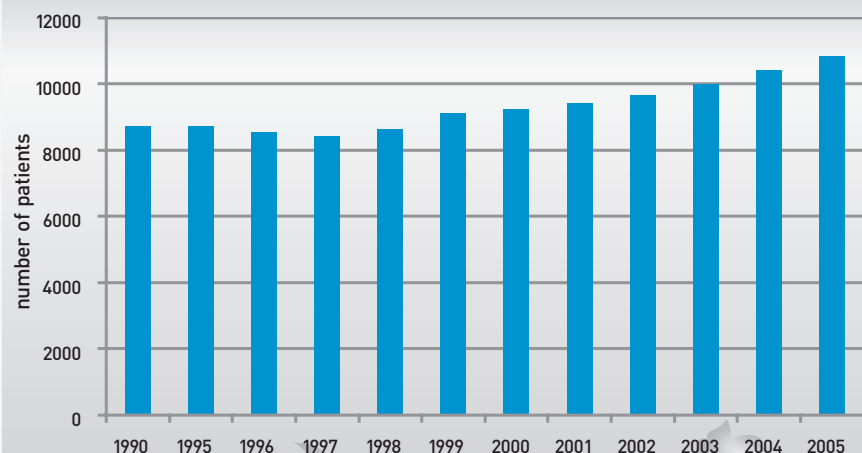
## The performance of the Hungarian healthcare system in international comparison (1997)

Country	International ranking
France	1
Italy	2
Spain	7
Austria	9
Japan	10
Portugal	12
Greece	14
The Netherlands	17
The United Kingdom	18
Belgium	21
Sweden	23
Germany	25
Finland	31
USA	37
Slovenia	38
Croatia	43
The Czech Republic	48
Poland	50
Albania	55
Slovakia	62
Hungary	66
Turkey	70
Romania	99
Bulgaria	102

Source: WHO

# The burdens on physicians are increasing

Patient turnover per year per physician



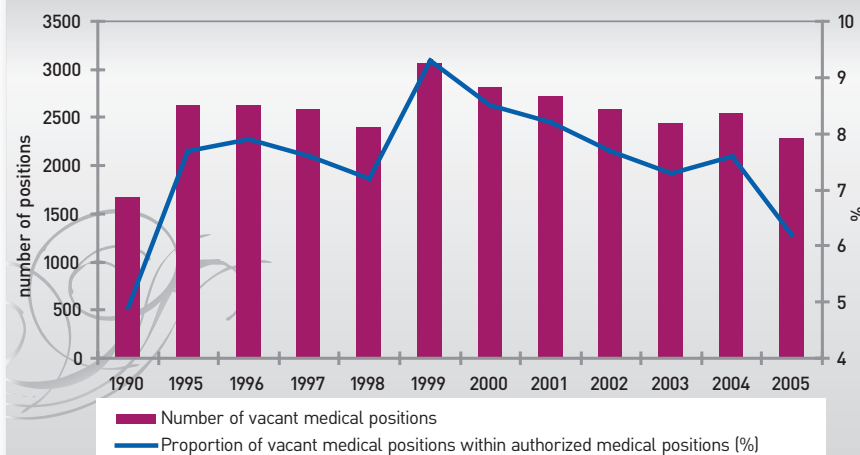
Source: Hungarian Central Statistical Office – KSH

DEMOS

- In 2005, there were 2,293 physician positions not filled in Hungary, which means 6.2% of all approved positions
- This proportion has been decreasing since 1990, and is the lowest in the fifteen years since 1990

- The number of patient contacts per general practitioner is increasing
- In 2005, there were 2000 more doctor-patient contacts per physician than in 1990
- Patient contacts per general practitioner have been over 10,000 since 2004

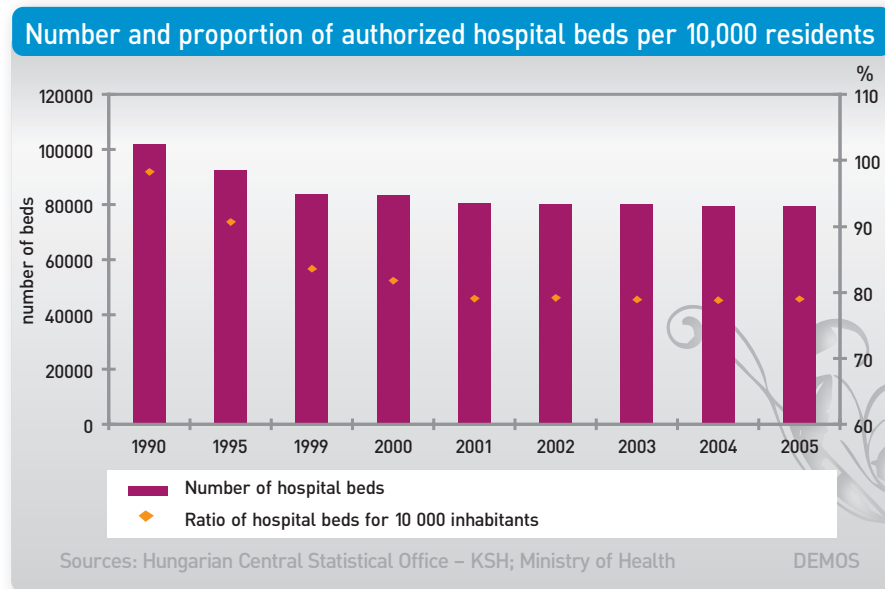
Number and proportion of vacant medical positions



Source: Hungarian Central Statistical Office – KSH

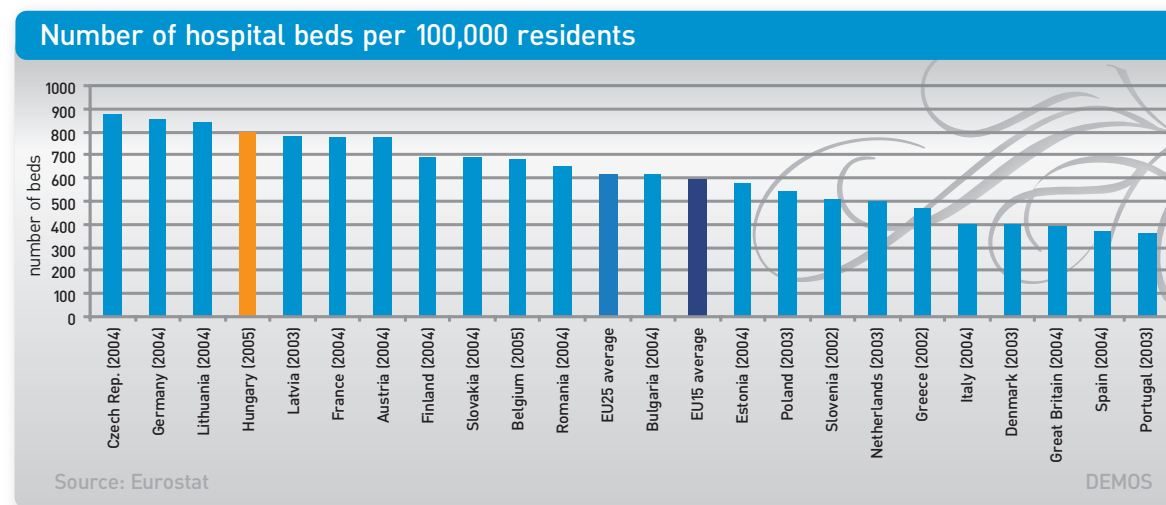
DEMOS

# The number of hospital beds is decreasing, but is still too high



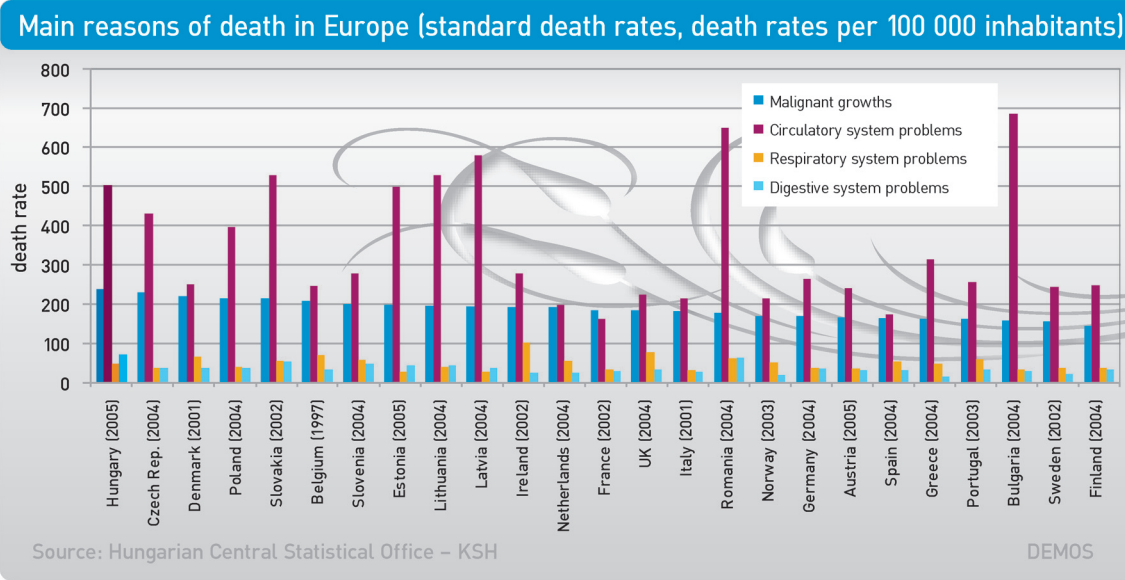
- The number of active hospital beds and its proportion per 10,000 inhabitants continuously decreased since the early 1990s, and is stagnating most recently
- In the framework of the healthcare reform, a further decrease can be expected in 2007: the total number of beds will decrease by 27 percent, to 71,000 (Source: Ministry of Health – Therapy 2007)

- The number of hospital beds is very high in European comparison, both in relation to the average of the EU15 and the EU25

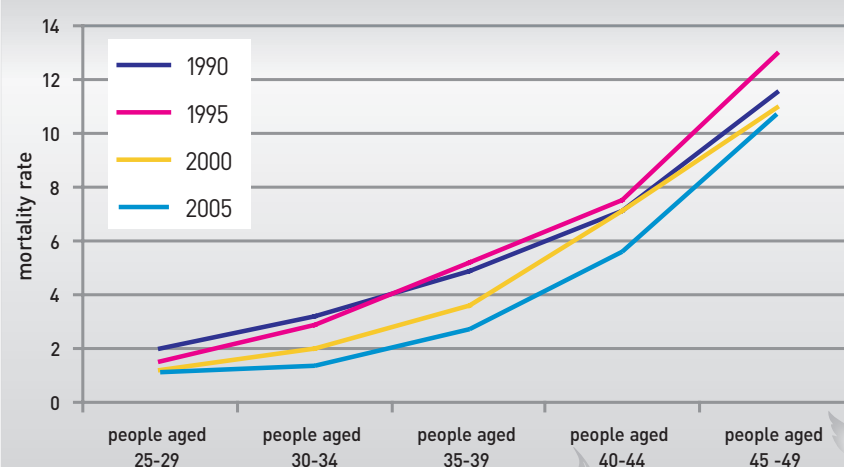


## Mortality statistics are unfavourable: most at risk are middle-aged men

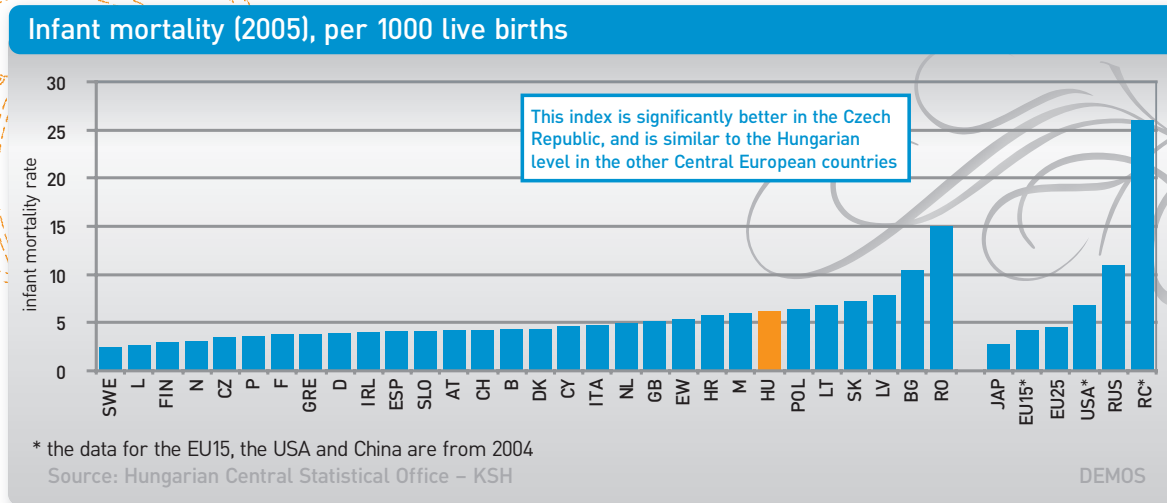
- In Europe proportionately most people die of tumorous and digestive system diseases
- In the case of middle-aged men, mortality statistics show an improving tendency
- The mortality index of middle-aged people, however, is still too high
- The number of deaths due to tumorous diseases is high in both sexes, but in the case of men, circulatory diseases are also a leading cause of death



**Mortality of middle-aged men (age group-specific mortality rate)**



## Infant mortality has been continuously decreasing, but is still too high in European comparison



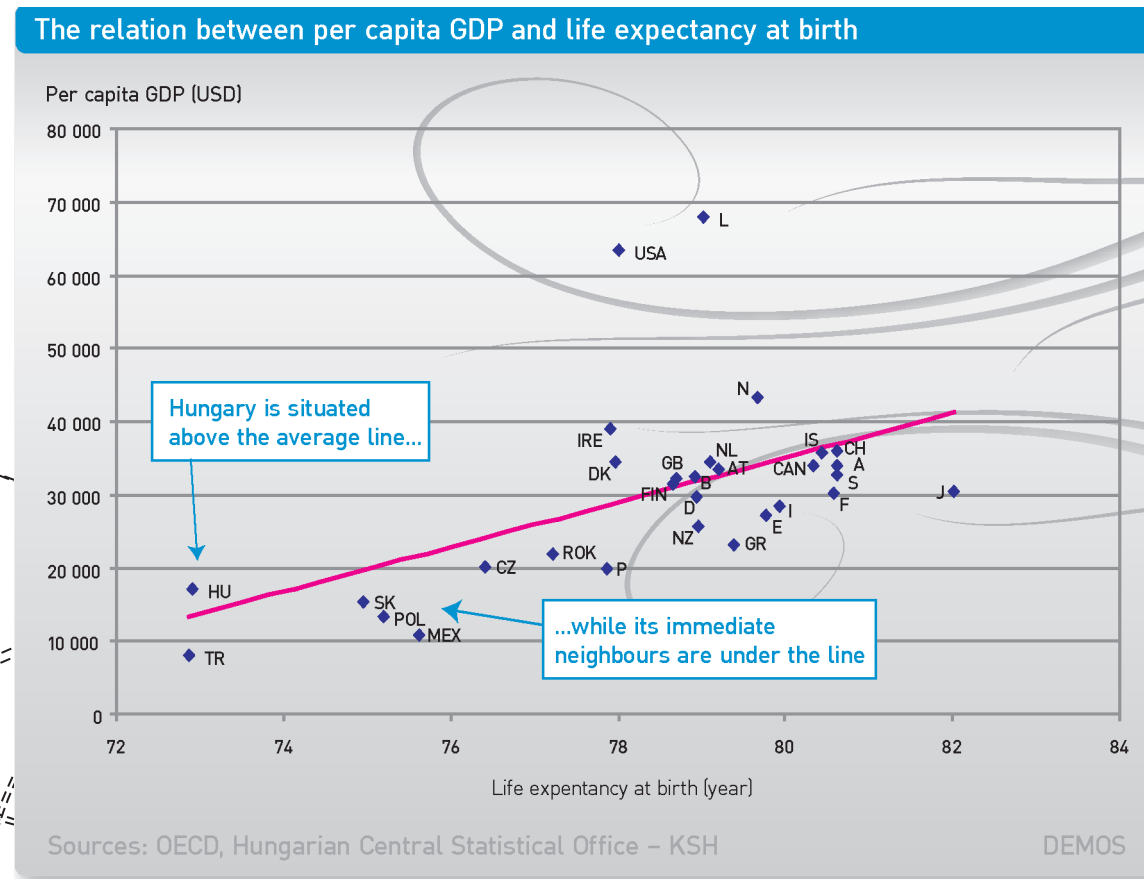
- Infant mortality has been continuously decreasing in Hungary, and this tendency was not broken by the economic difficulties caused by the political changes either

Infant mortality rate shows infant deaths by the first year of age in proportion to the total number of live births

- Out of 1000 infants, approximately 5 times as many died in 1970 than in 2003
- After the political changes, this tendency slowed down somewhat, but the infant mortality rate has still decreased to half of its level in 1990
- The current rate, however, is still too high in comparison with European countries



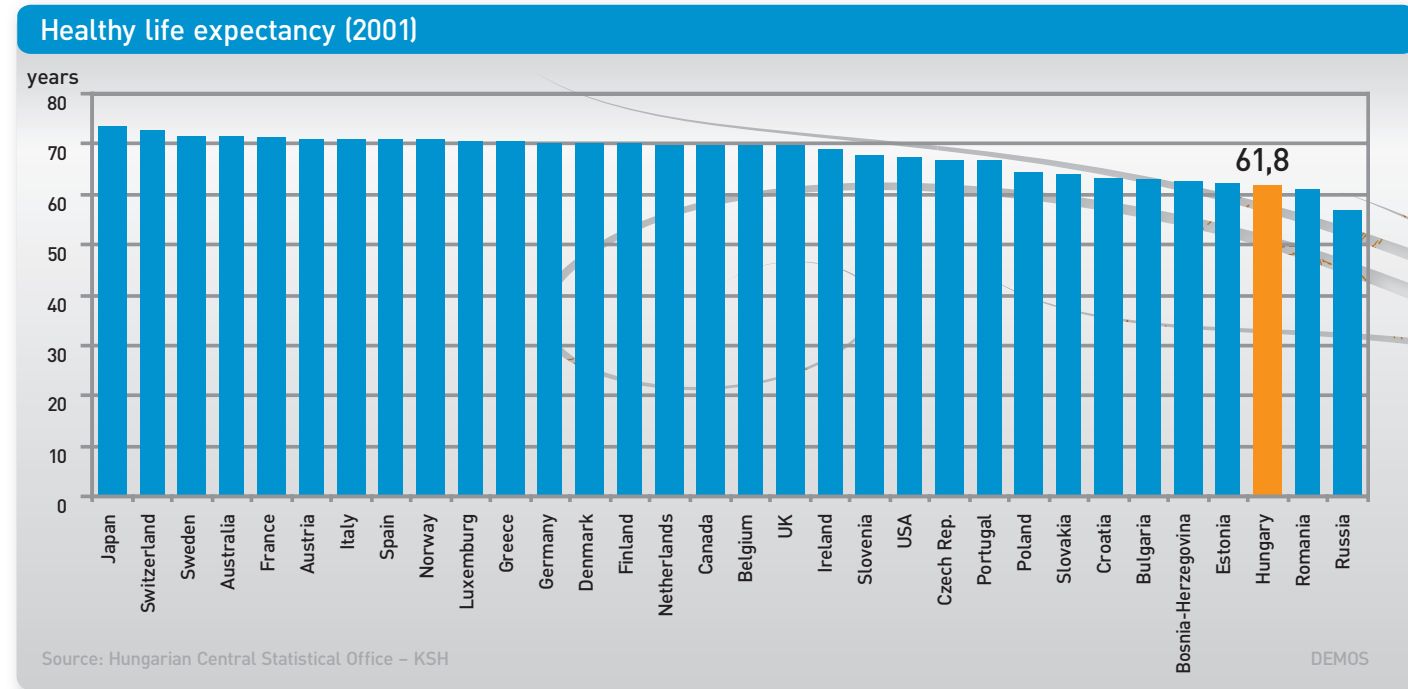
# Life expectancy at birth is low



- The data point representing Hungary is situated above the line indicating the positive correlation between per capita GDP and life expectancy at birth, which means that the life expectancy of Hungarians at birth is lower than justified by the economic situation – or the economic situation is better than would be made possible by the health conditions

## The expected lifespan in good health is very short in Hungary

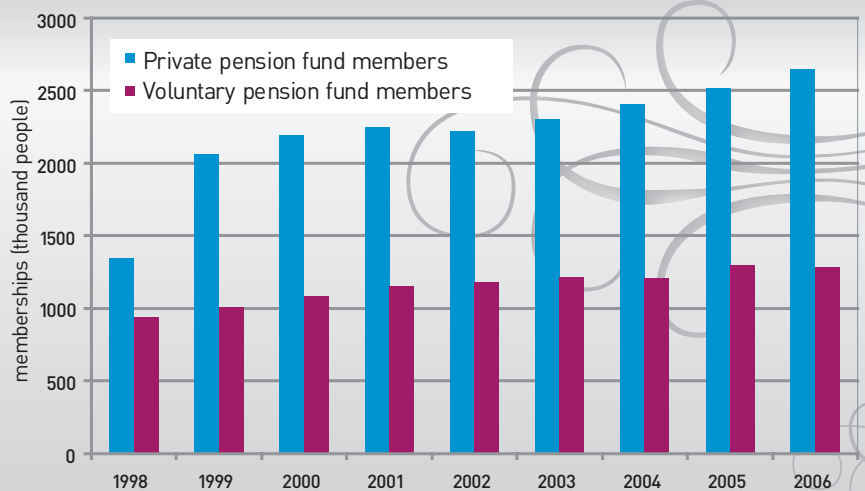
- The expected lifespan in health is very short in Hungary: with the exception of Romania and Russia, all European countries have more favourable figures



- In 2001, Hungarians on average could only expect 61.8 years in good health

# The pension system is in a state of transformation

Voluntary and private pension memberships (thousand people)



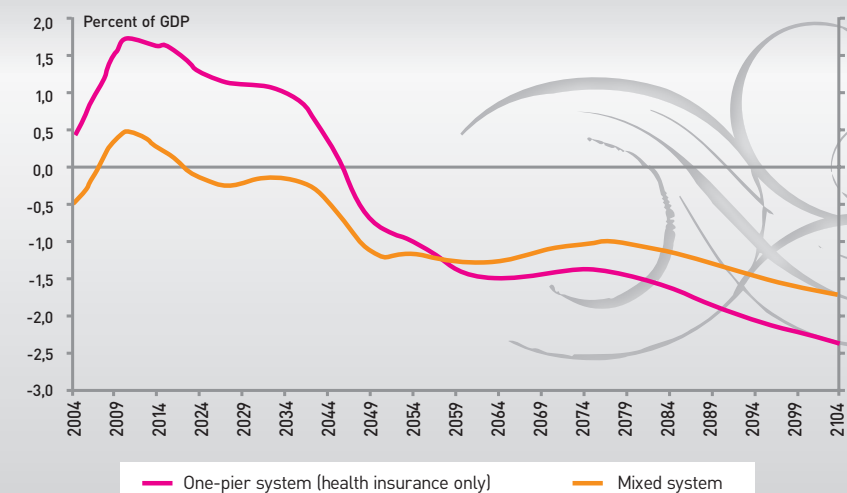
Source: Hungarian Financial Supervisory Authority – PSZÁF

DEMOS

- Hungarian society is characterised by decreasing population, increasing life expectancy, ageing, and an increase in the dependence rate
- The one-pillar pension system is not sustainable: the future state debt generated in 100 years will be 2.4 times the current GDP

- The Hungarian pension system rests on 3 pillars: social security insurance, private pension funds and voluntary mutual insurance funds
- Membership in both the voluntary and the private pension funds is increasing, but the latter at a faster pace

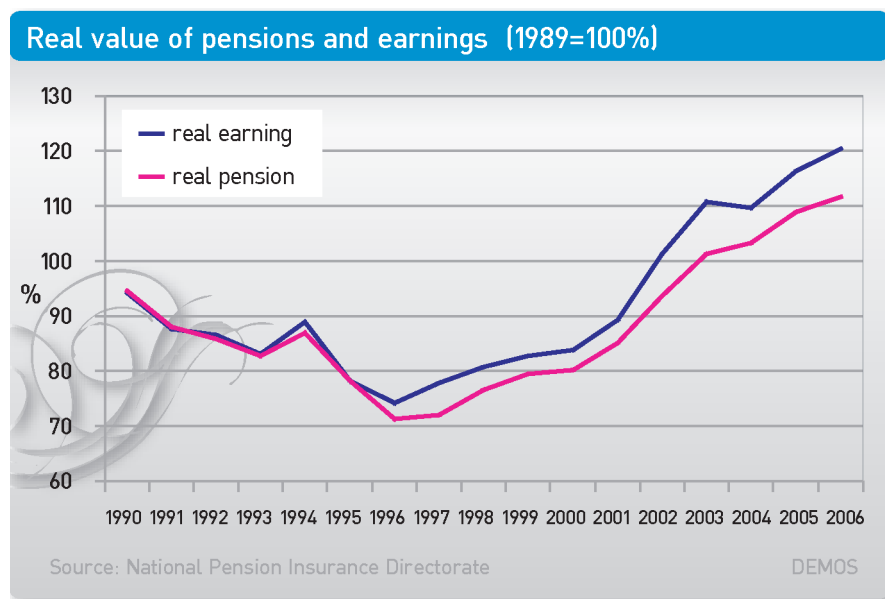
Distribution of employees per sector



Source: Orbán-Palotai (2005)

DEMOS

# How much are pensions worth?



- The retirement age is slowly converging in the European Union
- Real wages increased significantly in the period between 2001 and 2003 (by 21.4% in 3 years), a tendency which also continued from 2005

- The increase of real wages by almost one-third (31.2%) in six years is already higher than the increase of the purchasing power of pensions (26.5%)
- The number of people over 60 is increasing: this age group includes nearly 200,000 people more than in 1990
- Expenditures on retirement benefits have increased eightfold since 1992, while the number of recipients of retirement benefits remained virtually the same

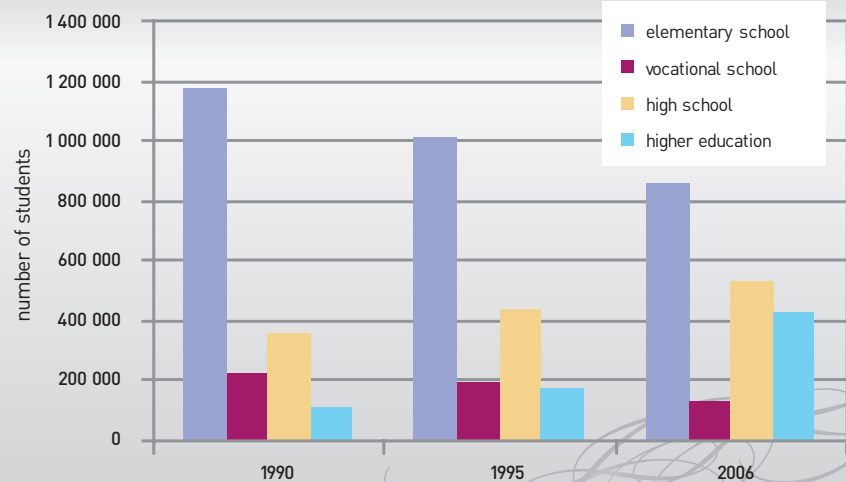
## Retirement age (2006)

Czech Republic	women: age 57/61 men: age 62
Estonia	women: age 58.5 men: age 63
Latvia	women: age 59 men: age 62
Lithuania	women: age 60 men: age 62
Poland	women: age 60 men: age 65
Hungary	uniform age 62
Slovakia	uniform age 60
Slovenia	women: age 57 men: age 58
United Kingdom	women: age 60 men: age 65
France	uniform age 60
Germany	uniform age 65
Italy	women: age 60 men: age 65
Sweden	uniform age 65

Source: EUvoanal

# Structural tensions in education: The proportion of programmes offering specialised/vocational knowledge has decreased

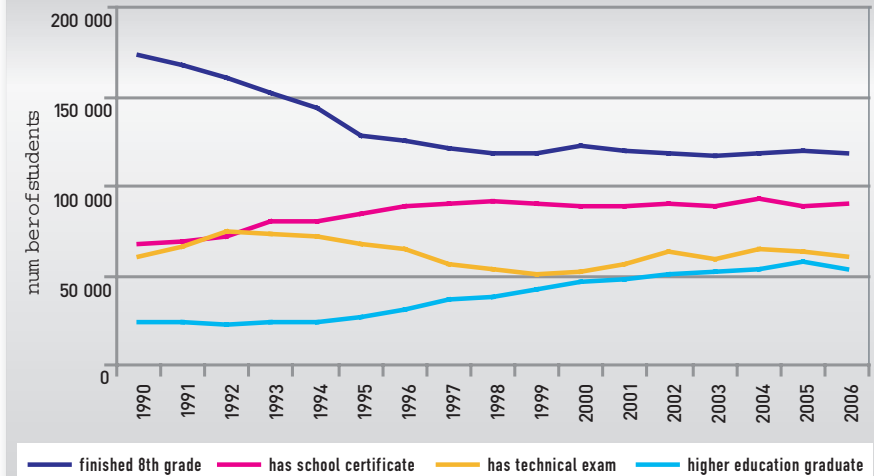
Changes in the number of students in public education institutions



Source: Hungarian Central Statistical Office – KSH

DEMOS

The structure of public education



Source: Hungarian Central Statistical Office – KSH

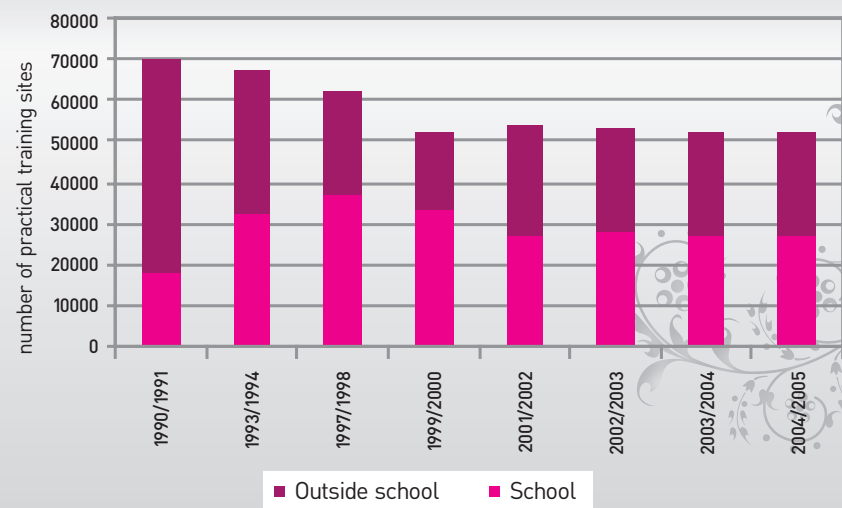
DEMOS

- Secondary education had become almost universal in the past decade: from just under 80% in the early 1990s, it now covers more than 90% of all 16-year-olds
- The number of pupils obtaining vocational qualifications dropped from the average of 70,000 to less than 60,000
- There is a shortage on the labour market of people with vocational qualifications

## The number of pupils in vocational education has increased from its lowest point in 1999, but is currently stagnating...

- The number of vocational training schools has slightly increased since 2000
- The number of vocational school pupils slightly increased after bottoming out in 1999, but it has been stagnating since 2001
- In general we can say that the prestige of vocational schools is decreasing

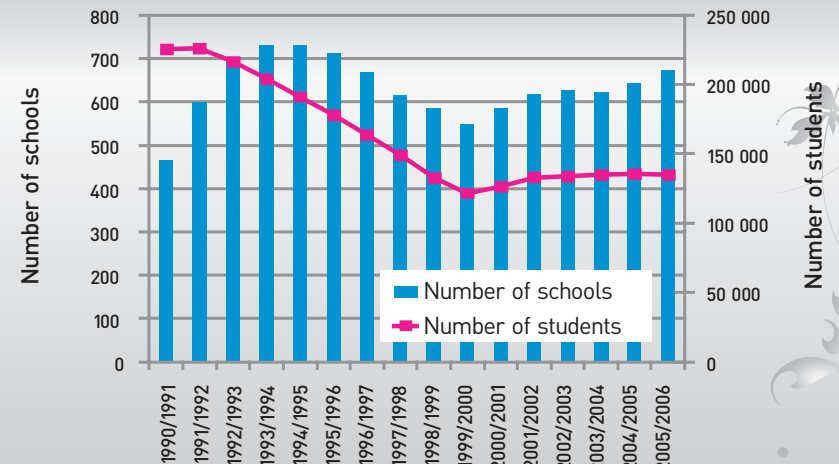
Changes in the number of practical training sites for vocational schools



Source: Report on Hungarian public education 2006

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Changes in the number of vocational school students

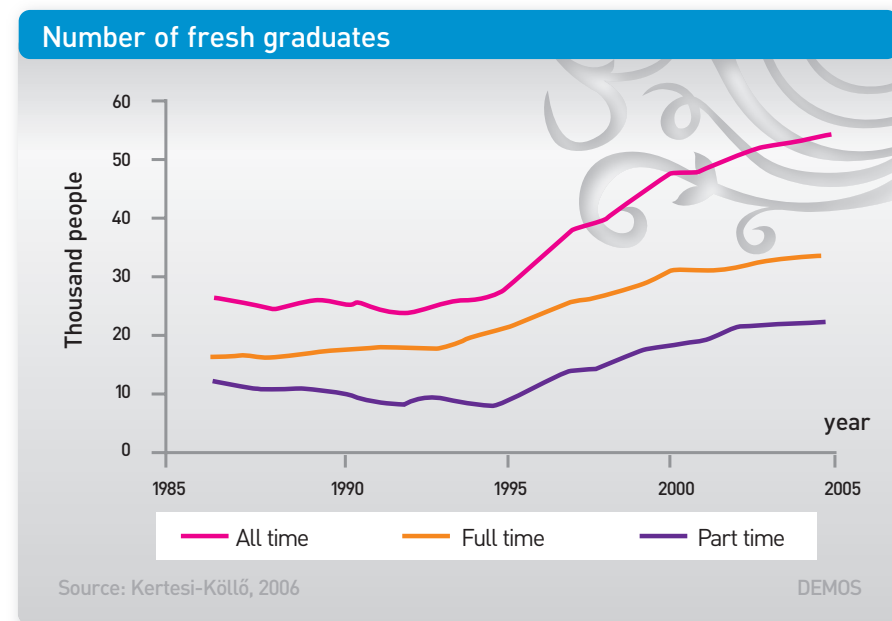
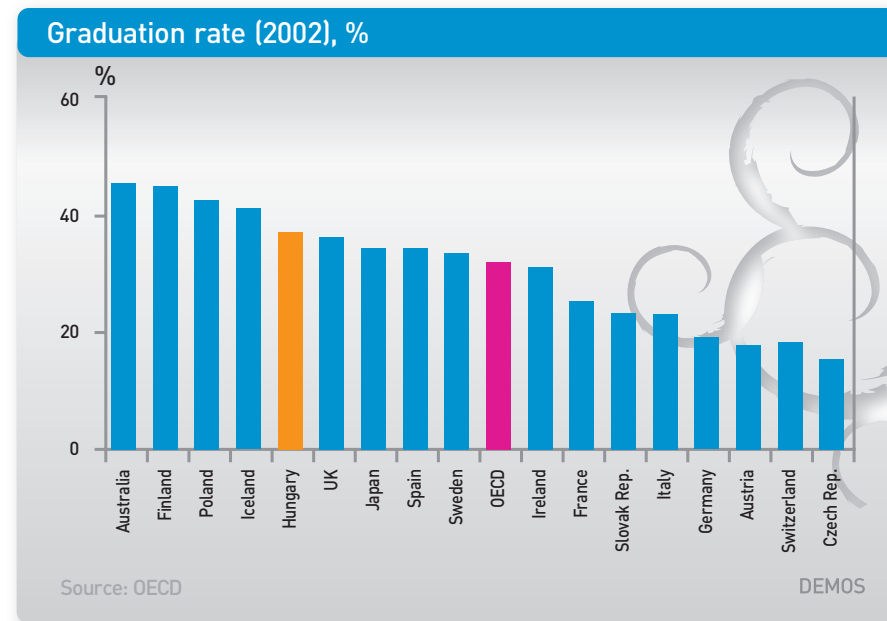


Source: Hungarian Central Statistical Office - KSH

DEMOS

- The conditions of obtaining the necessary practice have by and large deteriorated in the past decade and a half
- Apart from the shortage of skilled workers, a further problem in Hungary is that employers are dissatisfied with career starters
- Their level of vocational knowledge is insufficient, as is their practical experience, mathematical, speaking and writing skills are exasperating, while working discipline and culture is mediocre (Source: OKI)

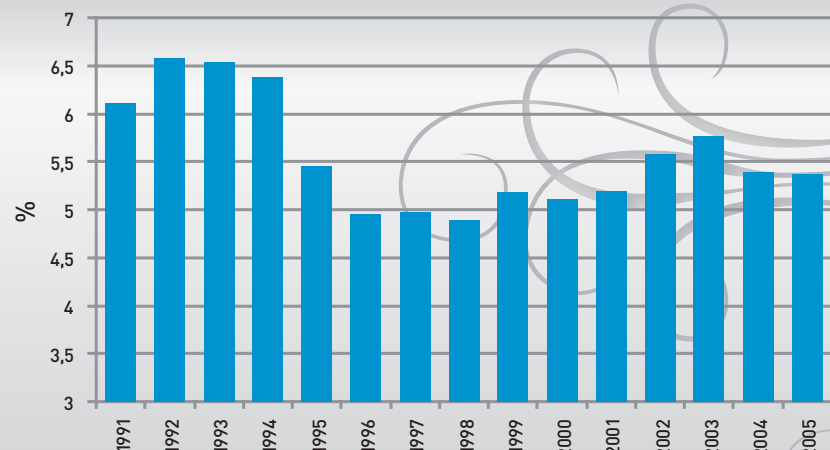
## ...while higher education is characterised by overproduction



- The number of fresh graduates entering the labour market is also high in international comparison
- This is not in line with the current structure of the economy, and is a source of tensions
- Due to the education system giving degrees to too many students, graduate unemployment has increased, especially among women
- The number and proportion of students in higher education increased from the early 1990s in an unprecedented way

# The amount spent on education is decreasing again

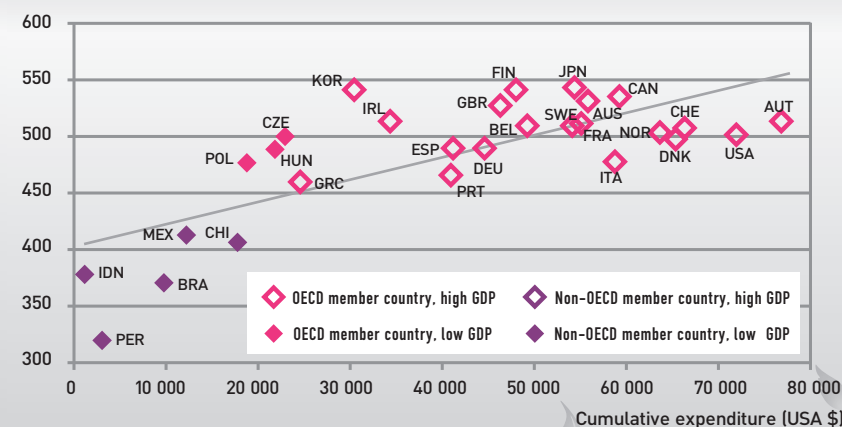
Amount spent on education, in percent of GDP



Source: OKI

DEMOS

Relationship between the average performance of pupils and the amount spent on their education, at age 15 (2003)



Source: OECD PISA Database, 2003. Table 3.3.

DEMOS

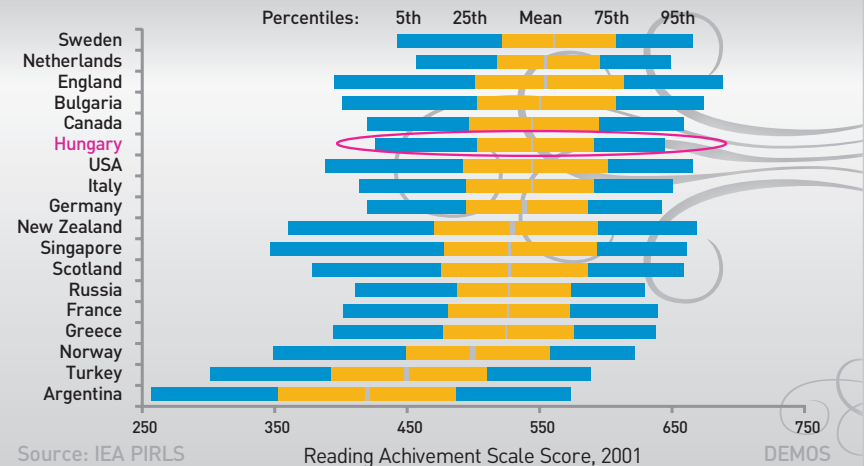
- After the lowest point in 1998, the amount spent on education increased to 5.77% of GDP by 2003, then started to decrease again
- The increase in teachers' salaries accounted for the bulk of the growth in 2002
- The decrease in the amount spent on public education is mainly due to the increase in private schools and training institutions
- This proportion can be considered average internationally, and is comparable to the figures of our regional competitors



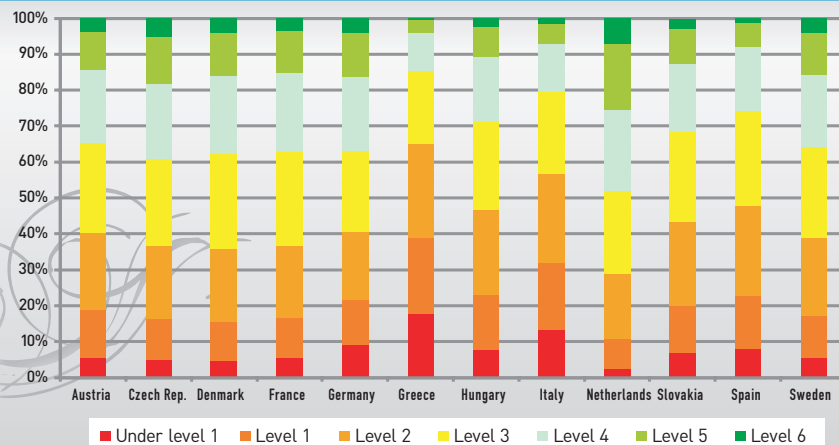
# Students do “cram” a lot, but comprehension is still problematic

- The school performance of older children is further and further behind the international average
- Hungarian pupils have difficulties especially with tasks measuring knowledge which is also usable in real life, but they were not outstandingly good in solving purely theoretical problems either
- General reading comprehension skills are still weak, and in terms of mathematical skills we are towards the end of the midfield

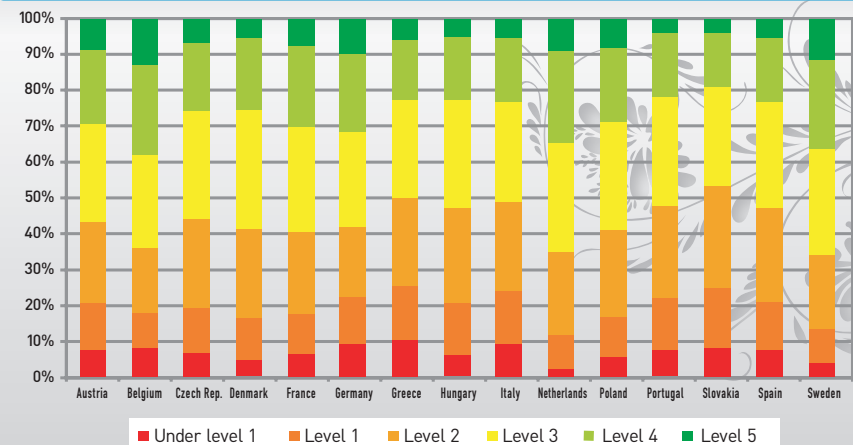
Reading performance at age 10



Distribution of 15-year-old pupils according to mathematical skills (Level 6 is the best)



Distribution of 15-year-old pupils according to reading skills (Level 5 is the best)

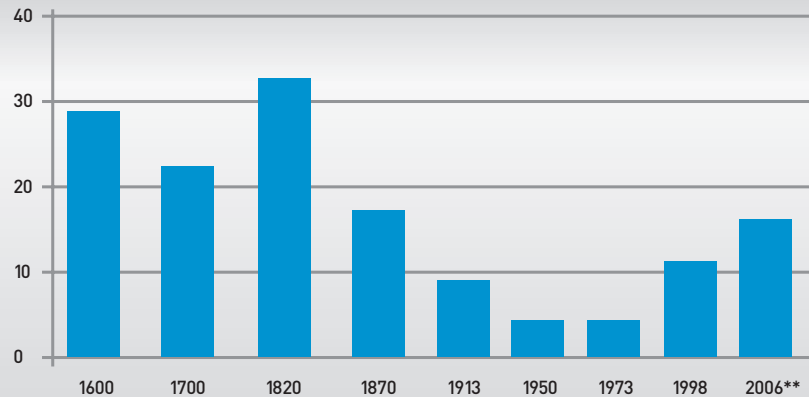


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# Re-emerging China is a crucial economic and cultural factor for Hungary

China's share of world GDP\* (%)



\* At purchasing power parity

\*\* Estimate

Sources: The World Economy, Maddison, IMF

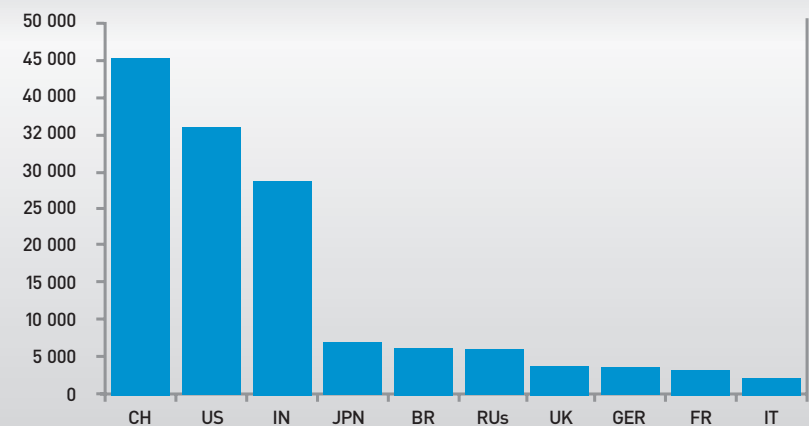
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- In the centuries preceding the mid-19<sup>th</sup> century China constituted the largest economy in the world; it provided 20-30% of the world's GDP
- Following a century and a half of decline, China's share of global GDP again exceeded 15% in 2006

- China – according to forecasts – will become the largest economy in the world by 2050; it will overtake the US and Japan, just as it has already overtaken Western-European economies
- China's advance is not unrivalled – India, Russia and Brazil will share its high-speed growth in the following decades

The Largest Economies in 2050

GDP (2003 US\$ bn)



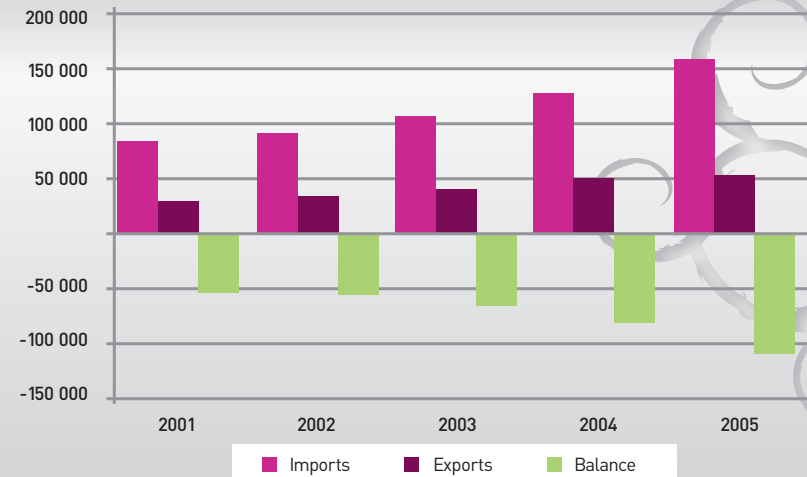
Source: Goldman Sachs, 2003

DEMOS

# Hungary is China's primary trading partner in Central and Eastern Europe...

- Trade relations have been growing stronger between the two countries in the last ten years
- Economic and especially trade relations between the EU and China are also gaining in strength
- All countries in the CEE region – with the exception of Austria – experience a trade deficit in their relations with China
- Hungary has the most intensive trade relations with China in the CEE region
- The Hungarian trade deficit with China is astoundingly high even compared to those of the neighbouring countries

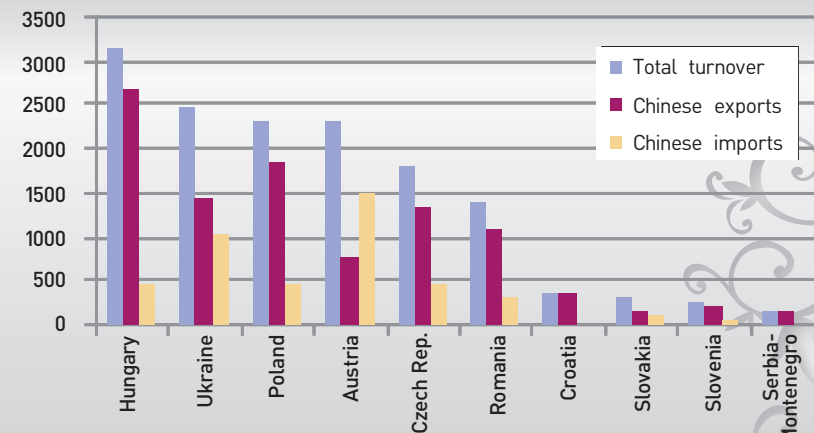
European union, Trade with China (million euros)



Source: European Commission

DEMOS

Foreign trade between China and CEE countries, 2004 (million USD)



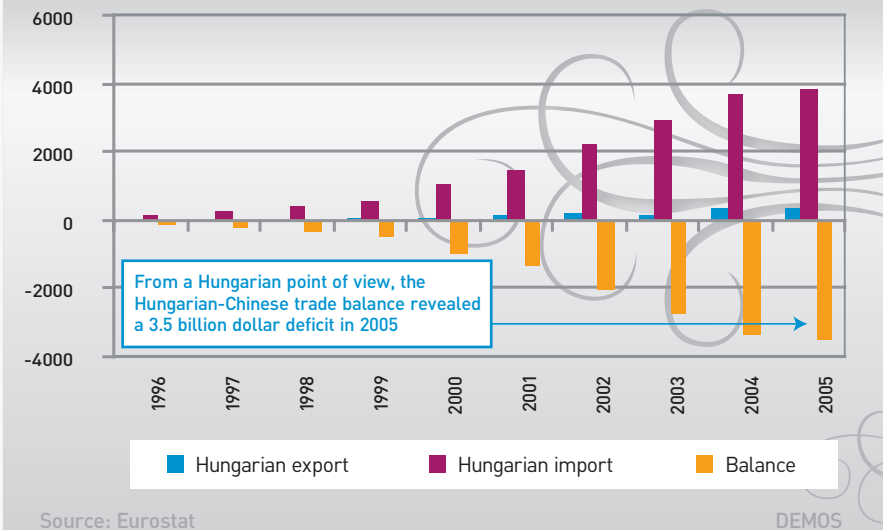
Source: Hungarian National Tourist Office

DEMOS

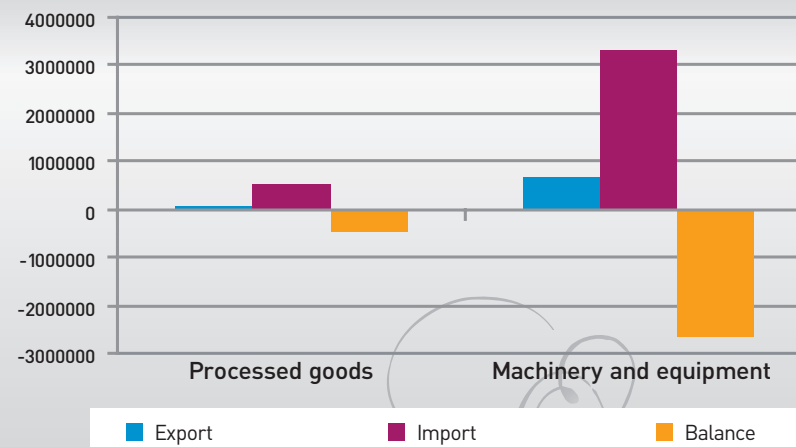
## ...but the trade deficit is continuously increasing

- Hungarian exports have been growing every year since 2000 – now they are eight times greater
- Yet the value of Hungarian exports cannot compete with the influx of Chinese products
- Hungary typically imports processed goods, machines and high-technology equipment from China
- However, technology imports account for 85% of the negative trade balance

China's trading links with Hungary, 1996-2005 (million USD)

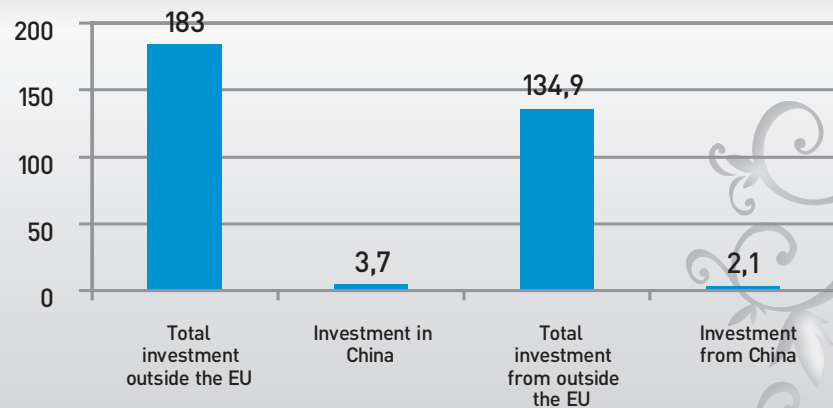


Main sectors of Hungarian-Chinese foreign trade, 2006 (thousand dollar)



## Mutual investments between China and EU members are growing

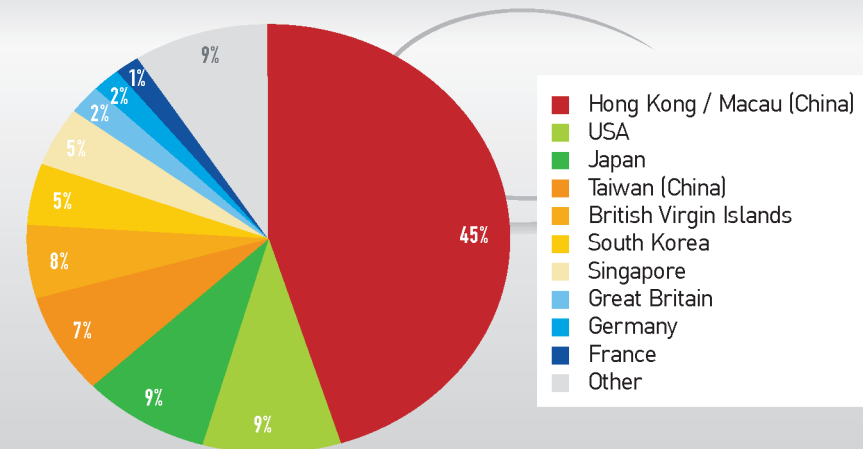
FDI flow between the European Union and China from the European point of view, 2006 (billion EUR)



Source: Eurostat

DEMOS

Foreign direct investment in China (1990-2004)

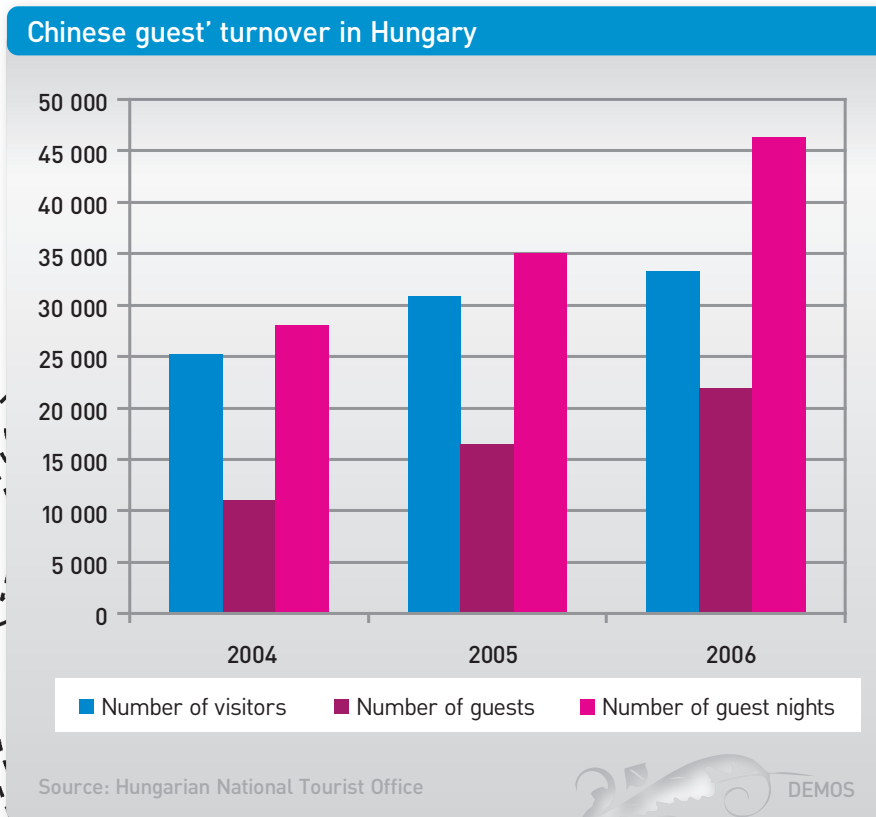


Source: www.china-profile.com

DEMOS

- The largest European investors (Germany, UK, France) account for just 1-2% of all foreign direct investment in China
- At the same time, China cannot be considered an important investor in Europe: in 2006, the EU invested 76% more in China than the other way around
- The value of Hungarian investments in China is growing, but it is still negligible: it is not listed separately either in the official EU or the Chinese statistics

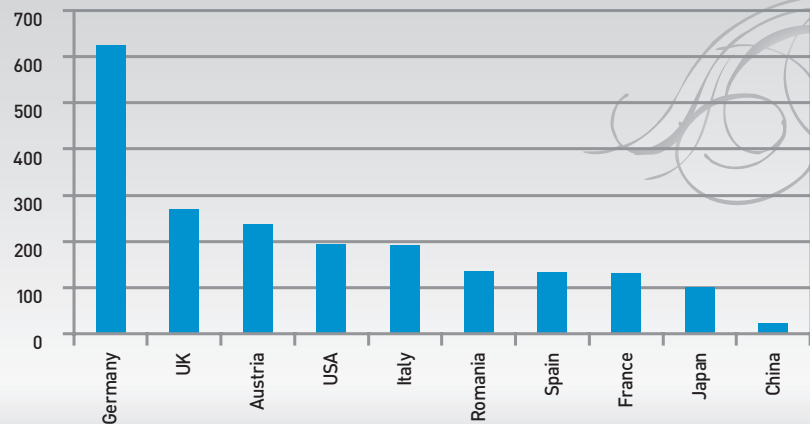
## More and more Chinese tourists are coming to Hungary...



- The positive impact of increased Chinese tourism abroad is making itself felt in Hungary as well
- In 2006, more than twice as many Chinese people spent at least one night in Hungary than two years before
- Chinese guests spend more than American and European tourists, and tend to choose more expensive, quality hotel services
- Among the Visegrád countries, Hungary is the most favoured destination of Chinese tourists
- Today, less than a fifth of Chinese tourists come to Europe, therefore the Chinese market holds great opportunities not only for Hungary, but for all of Europe

## ...and a dynamic growth in their numbers can be expected in the coming years

Incoming tourism of Hungary per country, 2006 (thousand people)



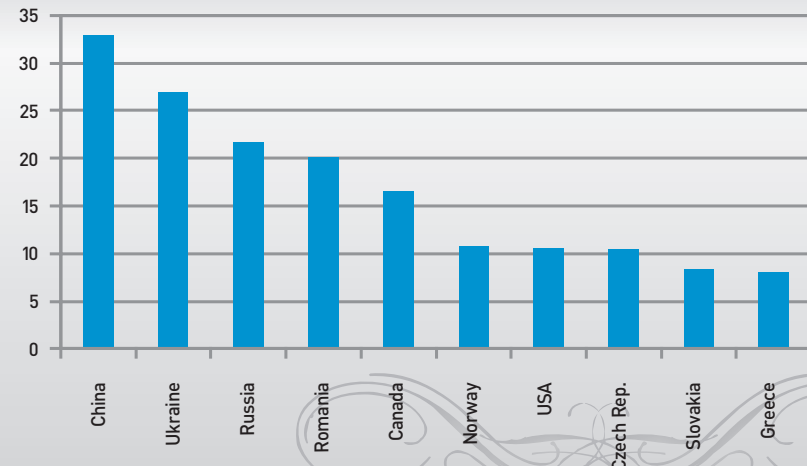
Source: Hungarian National Tourist Office

DEMOS

- In overall tourist traffic in 2006, the highest rate of growth was measured with reference to Chinese visitors
- Yet Chinese traffic – steadily rising since 2004 – still cannot compete with that of traditional sending countries (Germany, UK, Austria)

- In the list of guest nights spent in Hungary, China occupied 29<sup>th</sup> place in 2006
- High territorial concentration: in 2004, over 70% of guest nights by Chinese visitors were spent in the region of Central Hungary, especially in Budapest

Changes in the number of guests coming to Hungary, 2006/2005 (percent)



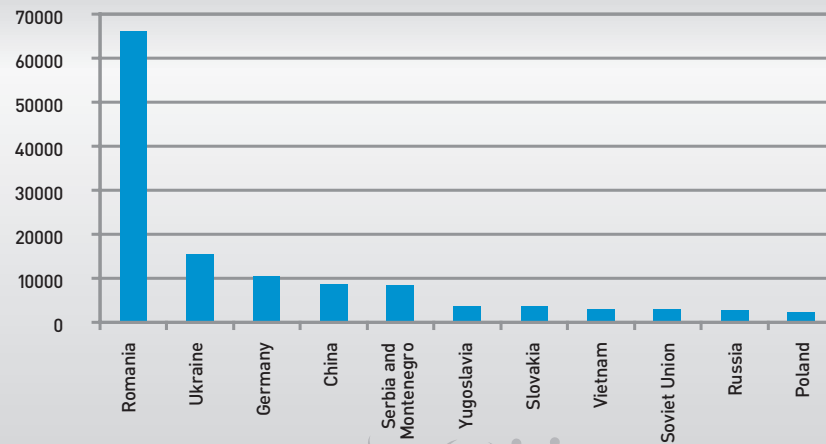
Source: Hungarian National Tourist Office

DEMOS



## Since democratic transition, most non-European immigrants relocating to Hungary have been Chinese

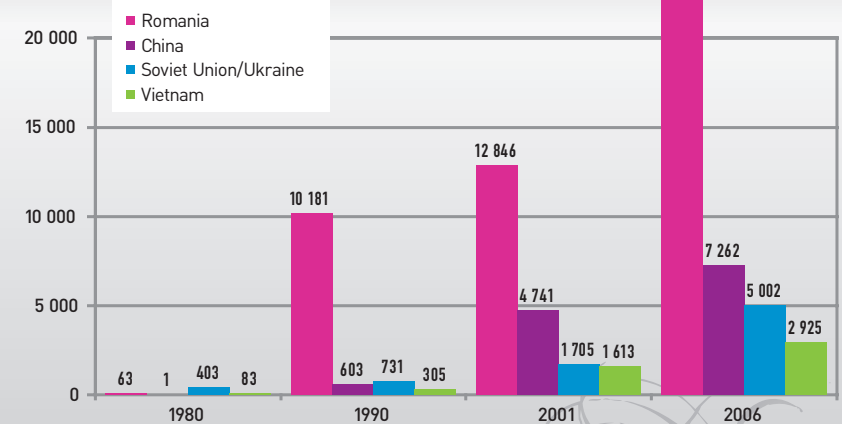
Foreigners residing in Hungary according to citizenship, 2006



Source: Hungarian Central Statistical Office – KSH

DEMOS

Foreigners staying in Budapest, by major countries 1980-2006



Source: Hungarian Central Statistical Office – KSH

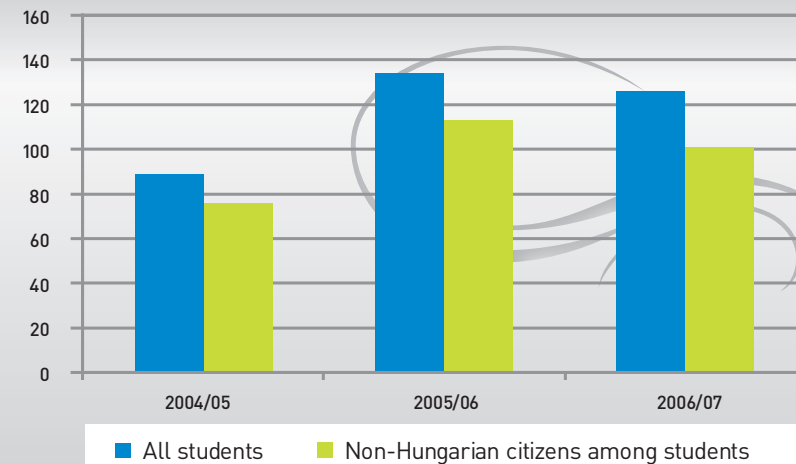
DEMOS

- In 2006, a total of 154,000 foreign citizens resided in Hungary, 66,000 of them in Budapest
- Among foreign citizens living in Hungary, Chinese people constitute the 4<sup>th</sup> largest group
- The Chinese minority is highly concentrated, over 80% of them have settled in Budapest
- Since 1990, the number of Chinese residents has increased more than tenfold, from 603 to 7262

## Few Hungarians learn Chinese and have few opportunities to do so

- Very few people learn Chinese in public and higher education
- In public education, only the Hungarian-Chinese Bilingual Elementary School offers the possibility of learning Chinese
- The number of students studying Chinese at Hungarian higher education institutions has not even reached one hundred annually
- The recently established Chinese cultural center (the Confucius Institute) in Budapest may help popularise the Chinese language

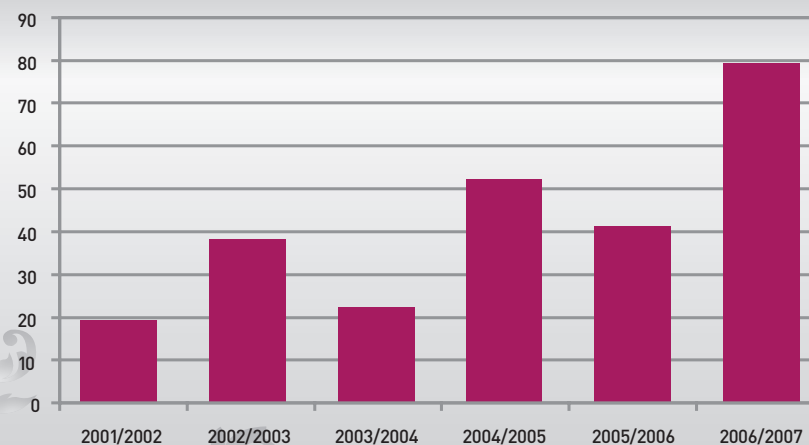
Students studying Chinese in Hungarian public education



Source: Ministry of Education and Culture

DEMOS

Number of students studying Chinese in higher education

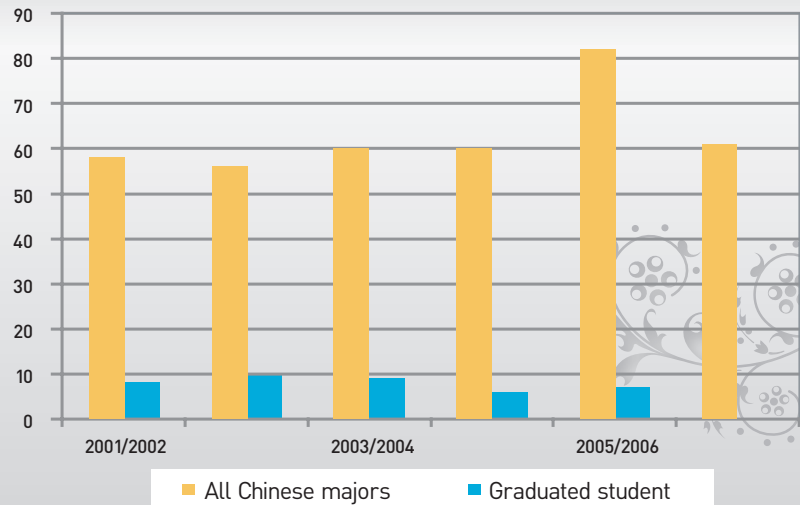


Source: Ministry of Education and Culture

DEMOS

# Few Chinese citizens come to study to Hungary

Number of Chinese majors in higher education

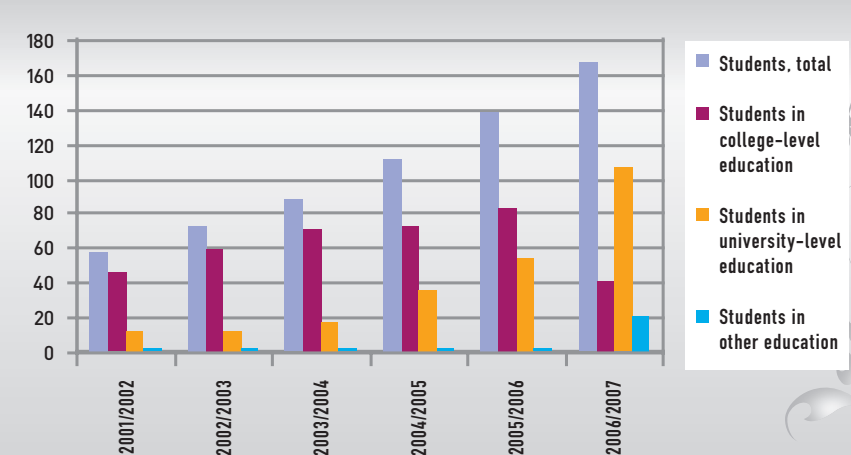


Source: Ministry of Education and Culture

DEMOS

- The number of Chinese citizens studying at Hungarian higher education institutions is rising every year, but remains rather low
- Chinese people studying here tend to choose university education over college education

Number of Chinese citizens in higher education in Hungary



Source: Ministry of Education and Culture

DEMOS

- Corvinus University of Budapest is the most popular target institution: in 2007, more than a third of the Chinese students study Economics here
- The only Hungarian university offering Chinese studies is ELTE, one of Hungary's leading university of liberal arts

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## Tasks and priorities

### Culture

A more optimistic and creative culture instead of the currently prevailing pessimism

### Politics

Identifying the perimeters of consensus-based areas

### Social policy

Following through the education, healthcare and pension reforms

### Economy

Following through the budget reform and implementing a competitiveness strategy

## Culture

Changing the cultural environment is of utmost importance. If the Hungarian culture of incessant complaining, coupled with an overwhelming pessimism as well as a general attitude that does not recognise performance, will not change, then our country will not find points of departure from our current problems.

Cultural changes, however, require a long time to take effect, which is why we must immediately set to work on developing a more optimistic general attitude. Such an attitude must also be open to and appreciative of performance, to exploring and taking advantage of opportunities and it must support creativity and entrepreneurial spirit.

## Politics

The political class has both, instruments at its disposal and responsibilities it needs to address. One of our most pressing tasks is to identify the line that separates the area of political competition, where democratic parties engage in battle, from those areas which need to be marked by political consensus. In the current situation, characterised by a complete lack of trust between the political parties, which focus only on their short-term interests, the designation of a pre-eminent area protected from political rivalry would constitute a major success that would benefit the entire nation.

## Social policy

The reforms initiated in education and healthcare must be carried out to the fullest extent. Public services have to be improved based on the principles of quality and efficiency – in order to achieve this one must not give in to lobby interests seeking to derail this process. Improving people's training and skills and providing continuously improving health conditions can never be achieved if we believe that the responsibility for education and health rests with schools and hospitals only. These two areas must take an increasingly important rule in ensuring the country's competitiveness. Hungary's system of social benefits and pensions also needs to be reviewed with special consideration to sustainability and competitiveness.

## Economy

The strategy designed to improve competitiveness must be boldly carried out, employment and economic activity must be increased, infrastructure needs to be developed and the spread of info-communication technologies has to be supported. All this would facilitate taking advantage of the benefits of EU membership and making Hungary a successful country in the 21st century.

**Page 9:** Foreign Policy – Globalisation Index, 2006. Rankings of the 62 countries in parenthesis (these 62 countries account for 98 percent of the world's GDP)

**Page 10:** Foreign Policy – Globalisation Index, [http://www.foreignpolicy.com/story/cms.php?story\\_id=2823](http://www.foreignpolicy.com/story/cms.php?story_id=2823)

**Page 11:** Figure on the left – ITHAKA 2004, ITU 2003; two figures on the right – BME-ITTK, ELTE ITHAKA, TÁRKI: World Internet Project (WIP): 2001-2006

**Page 12:** [www.geert-hofstede.com](http://www.geert-hofstede.com)

**Page 13:** World Values Survey 1995-2000, <http://www.worldvaluesurvey.org/>; Rudolf Andorka Rudolf (ed.: Zsolt Spéder) (2006): Bevezetés a szociológiába (Introduction to Sociology), Budapest, Osiris.

**Page 14:** Figure on the left – Eurostat, First European Quality of Life Survey: Life satisfaction, happiness and sense of belonging, p. 21, <http://www.eurofound.europa.eu/pubdocs/2005/91/en/1/ef0591en.pdf>; figure on the right – World Values Survey 1995-2000, <http://www.worldvaluessurvey.org/>

**Page 16:** Hungarian Central Statistical Office (KSH), Statistical Yearbooks (KSH Statisztikai Évkönyvek): 1998-2006

**Page 17:** Both figures – KSH, [http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/tabl4\\_01\\_17b.html](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/tabl4_01_17b.html)

**Page 18:** Figure on the left – Hungarian Privatisation and State Holding Company (ÁPV Zrt.) 2007, <http://www.apvrt.hu/m1.html>; figure on the right – EBRD Transition Reports, <http://www.ebrd.com/pubs/econo/series/trhtml>

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**Page 20:** both figures – ENSZ (UNCTAD), World Investment Report 2006, [http://www.unctad.org/en/docs/wir2006\\_en.pdf](http://www.unctad.org/en/docs/wir2006_en.pdf)

**Page 21:** both figures: Károly Fazekas (ed.): Munkaerőpiaci Tükör (Labour Market Overview) 2006, Institute of Economics of MTA (KTI), Országos Foglalkoztatási Közalapítvány (National Employment Foundation), Budapest, 2006, [http://econ.core.hu/doc/mt/2006/hun/cimn\\_tart.pdf](http://econ.core.hu/doc/mt/2006/hun/cimn_tart.pdf)

**Page 22:** Eurostat, [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1996\\_45323734&dad=portal&schema=PORTAL&screen=welcomeref&open=/&product=EuroIND\\_LM&depth=2](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996_45323734&dad=portal&schema=PORTAL&screen=welcomeref&open=/&product=EuroIND_LM&depth=2)

**Page 23:** Upper figure – Hungarian Central Bank (MNB), [http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resource\\_name=tablakeszlethu](http://www.mnb.hu/Resource.aspx?ResourceID=mnbfile&resource_name=tablakeszlethu); lower figure – [http://portal.ksh.hu/pls/ksh/docs/hun/xftp\\_idoszaki/pdf/makrogazdasag2006.pdf](http://portal.ksh.hu/pls/ksh/docs/hun/xftp_idoszaki/pdf/makrogazdasag2006.pdf)

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**Page 31:** Human Development Report 2006., <http://hdr.undp.org/hdr2006/>

**Page 32:** Upper left figure – Károly Fazekas (ed.): Labour Market Overview 2006, MTA KTI, National Employment Foundation, Budapest, 2006, [http://econ.core.hu/doc/mt/2006/hun/cimn\\_tart.pdf](http://econ.core.hu/doc/mt/2006/hun/cimn_tart.pdf); lower left figure and figure on the left – KSH, [www.ksh.hu](http://www.ksh.hu)

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**Page 36:** Figure on the left – KSH, [http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/tabl1\\_02\\_01\\_06.html](http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/tabl1_02_01_06.html); figure on the right – Hungarian Statistical Yearbook 2005., KSH, 2006., p. 350; both figures – Family Budget Database, 1993-2002., KSH

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**Page 38:** Budapest Airport Zrt., Annual Report of 2006

**Page 39:** Szonda Ipsos, DEMOS contest Facts Speak For Us („Tények értünk beszélnek”), 2006.

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**Page 42:** Eurobarometer 65 (January 2007), [http://ec.europa.eu/public\\_opinion/archives/eb/eb65/eb65\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf), p. 10

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**Page 45:** upper left figure – Balázs Kapitány and Zsolt Spéder: Poverty and deprivation. KSH 2004 definitions: “Absolute material deprivation” if at least five of the following are missing: one hot meal per day, a separate room for everyone, toilet and bathroom, telephone, car, colour TV, automatic washing machine, annual vacation, at least HUF 5,000 savings per month; “Poor housing conditions” if at least two of the following are true: crowded living space (at least



two people per room, less than 15 sq m of useful living space per adult and 8 sq m per child), poorly equipped (no toilet and/or bathroom, traditional heating or no heating at all), legally uncertain place of residence; "Deprivation based on living conditions" if at least eight of the following are missing: characteristics of material deprivation PLUS home having a garden, terrace, nice view, dishwasher, VCR, computer, regularly buys new clothes, replaces old furniture, regularly buys newspapers, invites friends over at least once a month, eats out at least once a month

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**Page 47: Upper left figure** – World Values Survey, ELTE-Ithaka; **figure in the centre** – TÁRKI Omnibusz, February 2007; **lower right figure** – Zsolt Enyedi, Zoltán Fábrián, Endre Sík: Has prejudice increased in Hungary? in: Social Report, 2004: Tamás Kolosi, György Tóth I., György Vukovich (eds.), TÁRKI, Budapest, pp. 375-399.; Gallup; MTA Institute of Psychology

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## Strategic Audit 2007

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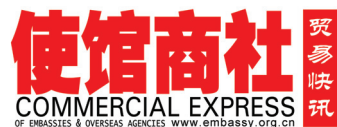
Layout and graphic editor:

Dorka Kopcsányi

Translator:

e-spell non-stop translation agency ltd.

Printed by



In Hungary's Strategic Audit 2007, DEMOS Hungary, relying primarily on the figures of different international and Hungarian statistical organisations, has published the social and economic indicators which characterise the trends of the past seventeen years. The international data was published primarily by EUROSTAT and the OECD; the Hungarian data came mostly from the Hungarian Central Statistical Office (KSH) and the TÁRKI research institution, as well as from various international monitoring projects (e.g. SIBIS). The owners of the data cannot be held responsible for their interpretation; the conclusions and evaluations found in the text are those of the researchers and experts of DEMOS Hungary.



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